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Bandwagon? Goods train? Or, What?

THE JANATA omelette is taking shape. Eggs, naturally, had to be broken—and they were duly broken. The short shrift given to Congress governments in nine states was nearly as integral to the political strategy of the party as the merger declarations of May 1. The imposition of president's rule on those states, as a preliminary to elections in June, was as innocent of any moral imperative as any exercise of authority in the history of the politics of power. There was—and still is—a clear case for the immediate prosecution of those who were (or, are) chief ministers or other ministers of states where illegalities were committed or corrupt practices indulged in or connived at by them under the licence granted by the emergency to the previous regime and its myrmidons. But the dissolution of the assemblies, through procedures and on grounds not contemplated in the constitution, can be justified only by those who have, or believe they have, benefited directly or indirectly from that dissolution. The public, however, need not be unduly upset by the cynicism of men in power. It knows that statesmen never speak of principles, but only of reasons of state and that politicians do orate about principles, but the only use they have for them is to break them on the grounds of expediency. Expediency, in fact, is the only enduring principle of government, as, indeed, of all human relations.

Expediency, nevertheless, must be practised wisely as well as with passion. In this it is like love. The Congress party was a bandwagon in its day. This was why it moved so swiftly downhill once it found itself on the right (or the wrong) gradient. The bandmaster naturally had an easy task destroying it and herself in the bargain. What is the Janata party going to be? Another bandwagon? Or, a goods train? There is nothing wrong with a goods train provided all the freight is consigned to travel in the same direction, even if not to the same destination. We may only hope that the Janata party is not obsessed with the numbers game. The omens, however, are disturbing. With Christ-like simplicity, the party president, Mr Chandra Shekhar has declared that there must be room in his Father's Mansion for those who had done wrong, but have now seen the error of their ways. At this rate there will be only two species of politicians in our land—the saints and the penitents. In fact, only Mrs Indira Gandhi, Mr Sanjay Gandhi and Mr Bansilal—and, perhaps, Yogi Dharendra Brahmachari—will have to be kept out of our public life. Even Mr V.C. Shukla will be eligible for absolution. He may probably have to be censured first—but, then, being censured will be no new ordeal to him.

Mr Chandra Shekhar sounded definitely less holy when he tartly reacted to a suggestion from an obviously naive member of the journalist profession that the Janata party should not set out on the road to one-party rule by attempting to destroy the Congress party. He declared that it was no part of his or his party's responsibility to seek to keep the Congress party alive. This was precisely the attitude which Congress leaders from Jawaharlal Nehru downwards adopted whenever the need for the fostering of a healthy two-party system for the better functioning of a democratic polity came to be debated. As a result, opposition politics became fragmented and opposition presence in the legislatures ineffective, thus paving the way for a situation in which Mrs Gandhi and her coterie could make their bid for absolute power.

On the eve of the general election, when it still seemed possible that Mrs Gandhi and her party might be voted back to power, although with a very much diminished majority, many of us tried to draw comfort from the expectation that the Janata party would nevertheless be returned in sufficient strength to put a brake on Mrs Gandhi's attempt to seize absolute power and compel her to return to the ways of constitutional government. It is true that her conspiracy to legitimise her authoritarian rule was thwarted by the rout she and her party suffered at the polls, but this has not made it

any the less necessary for promoting and strengthening trends in our politics for discouraging the re-emergence of the hegemony of a single party. Mr Chandra Shekhar's cavalier defence of his party's "open door" policy towards defections from the Congress party is therefore far from reassuring.

The Janata party does not even have the excuse now that it needs to pilfer votes for securing the election of its candidate to the presidency or pirate support for winning majorities in the state assemblies for which elections are to be held next month. It is possible and, indeed, easy

for it to allow time for the Congress party to set its house in order by taking such steps as it should to rid itself of the terrible legacy of the two Gandhis and find its vocation anew in the political life of the country. This course cannot pose any problem to the Janata leadership since the Congress for Democracy has been compelled by circumstances to wind up its separate existence. Mr Chandra Shekhar, in his charity, wants to provide a home for fallen Congressmen. The people, in their wisdom, would surely like to give the Congress party, so cruelly betrayed by its leaders, a chance to rehabilitate itself.

From red to green

WITHIN THE tight time schedule available to the new Commerce minister, Mr Mohan Dharia, for recasting the import policy in line with the economic philosophy of the Janata government, as propounded by it in its election manifesto, he, indeed, has done a fairly good job without delaying much this major policy pronouncement. This does not imply, however, that further thought on import strategy has not to be bestowed by the government.

With the foreign exchange position currently quite comfortable and the prospects of external assistance for our economic development also brightening up, a substantial relaxation in imports was generally anticipated. In fact, even the previous government had started taking steps in this direction, though somewhat belatedly. To that extent, the policy is on the expected lines. So also is the case with the simplification of the licensing procedures. But much more important than all this is the steps envisaged to see that the liberalised policy yields the desired results and the misuse of import licences is obviated.

The expectation in some circles that the policy in regard to equipment imports in general would be liberalised significantly in the interest of not only imparting competition to indigenous manufacturers of equipment but also of providing an

impetus to the setting up of new industrial projects, especially in the non-export sector, has not materialised fully. These imports have been liberalised primarily for the export-oriented industries such as leather and garment-making and in the case of machine tools and proto-types required by the small-scale industries development corporations. The liberalisation effected to meet the requirements of others, including actual users, has been just marginal. The import policy, among other things, continues to aim at attaining self-reliance in the industrial sphere and seeks to provide protection to the indigenous equipment manufacturers.

Ostensibly, this objective of the import policy cannot be objected to. A developing country such as ours, struggling to attain its rightful place among the industrialised nations, cannot afford to indiscriminately import capital equipment, particularly when through concerted efforts a good base in this line of manufacture has been built up at considerable sacrifice. But a bolder approach towards imports of equipment was called for in sectors in which the indigenous manufacturers are not able to meet the requirements of the consuming industries expeditiously. Instances are not wanting of the long delays in the implementation of many projects on this account, leading to unnecessary

escalation in their capital costs and adverse effect on their financial viability. In some sectors, particularly in the infrastructure field, there appears to be a case for liberal imports of capital equipment even otherwise in order to speed up development which can have a very salutary effect on economic growth in general. Furthermore the inflationary impact on the economy of the accumulating foreign exchange resources cannot be ignored.

The substantial liberalisation effected in the imports of industrial raw materials, spare parts and components, of course, is welcome, for that will help in augmenting production expeditiously through better utilisation of the installed capacities. Increase in production is a sure—rather the only—remedy for the containment of the priceline. As the investment in new projects has been at a tardy pace during the recent years, production can be augmented quickly primarily by utilising to the maximum the existing capacities and expediting the completion of the projects under implementation at present and to some extent through setting up of small lead projects in the small and medium-scale sectors.

accelerating growth

The emphasis placed on accelerating the growth of production in the cottage and small-scale industrial sectors has its genesis in the above, apart from in the other objective of opening up sizeable avenues of employment in line with the election manifesto of the Janata party. There can be no denying the fact that despite the tall talk of fostering the development of the small-scale sector and the import policy till last year being attempted to be gradually oriented towards this end, this sector had been getting step-motherly treatment.

Care, however, has to be taken that the liberalised imports for the small-scale sector are not cornered by the units which exist just on paper, with political backing. A number of such units, no doubt, have been weeded out in the last two years. But still, a few must be there to take advantage of the premia which impose on scarce materials can be expected to command despite liberal imports. T

imports of all materials obviously have not been—even cannot be—liberalised to the extent of completely eradicating scarcities which get accentuated through hoarding tendencies. The same applies to the liberalised imports of some consumer products which have been allowed as anti-smuggling measure. It is in this context that the vigilance envisaged to be exercised in the use of import licences assumes significance, although the provocation for this perhaps has been provided recently by unsatisfactory imports of edible oils in spite of the liberal treatment extended to these imports after January last. The Commerce minister, quite significantly, has ordered an inquiry into this affair.

automatic growth factor

While the interests of the small-scale, cottage and village industries have been sought to be safeguarded and promoted in the import policy through allowing a growth factor of 20 per cent in the automatic licensing system applicable to them, making available to them the facility of supplementary licensing in the same manner as in the case of large-scale units, according special weightage to their exports in the export house scheme, etc., a radical innovation has been made with regard to the policy for pushing up exports through registered exporters. These exporters will now not only be able to obtain their inputs at international prices but also get other facilities to counter the handicaps which they have been facing. Their products are also to be made competitive in overseas markets. The scheme of duty-free imports of raw materials and components for export production has also been made more attractive and realistic. The scheme for export houses to have been revised and simplified. The new scheme provides greater opportunity to the export houses to offer merchandising and other services to their supporting manufacturers, particularly those in the small-scale and cottage industry sectors. Some facilities have been provided also to merchant exporters who will be exporting the products made in the small-scale and cottage and village industries sectors.

A much more significant step taken in regard to exports in a judicious manner

is the abrogation of the compulsory export obligation applicable to certain industries using imported machinery and inputs. This apparently has been done to obviate exports at throw-away prices. The step should help in realising reasonable prices for our exports and to some extent in augmenting domestic supplies without sacrificing export earnings. The government, of course, has reserved the right to put export obligations if considered necessary on a review of the situation later.

A good deal of liberalisation has been effected in the imports required for research and development activity, medical care, fostering of technical and specialised education, etc. The licensing procedures, similarly, have been simplified markedly. The pertinent instances of this are the dispensing with of the requirement of quoting of IVC numbers and replacement of it by a mere declaration by the applicant and a post-licensing check by the income-tax department, doing away with of cumbersome and time-consuming capacity assessment procedure in the case of small-scale units and enlarging of the open general licence and free licensing lists. As a result of expanding the OGL and

free licensing lists, the number of canalised items has been reduced by about 30 to 164, the important decanalised items being raw wool, copra, peppermint oil, rayon-grade wood pulp, and some chemicals.

In recasting the import policy, the government has placed great faith in the business community. The pledge taken last week before Mr Jayaprakash Narayan in Bombay by nearly 250 notorious smugglers appears to be an evidence of some change of heart among the unscrupulous. It is to be hoped that the business community in general will live up to expectations and utilise the opportunity provided by the liberalised import policy to foster the growth of the economy and contain the price level. Much in this respect, of course, also depends on the fiscal and monetary policies proposed to be followed by the Janata government, as the prices of some of the import items such as cotton and edible oils are higher than the domestic prices and this cannot help in bringing down the prices of the consumer products made out of them. These policies are to be unfolded in this year's regular budget to be presented to Parliament later this month.

The case for cables

THE NEED for special measures for stimulating investment in the corporate sector was recognised to some extent in the tax reliefs and concessions given last March in the central budget for the financial year 1976-77. One of them took the form of partial restoration of incentives for capital spending by companies. This was the scheme of an investment allowance towards the cost of acquisition of new machinery and plant, in the place of an earlier system of development rebate which had been withdrawn on the ground that it had outlived its utility. In the opinion of industry, this investment allowance was but of a pale imitation of the development rebate, but hopes were entertained that this scheme would be liberally framed to cover as wide a range of industry as possible. Unfortunately this expectation was not fulfilled when the schedule of eligible industries

was finally adopted. Not only was the coverage unduly narrow but it was also riddled with anomalies. A number of industries, which had enjoyed the benefit of the development rebate, found that the investment allowance was denied to them for reasons which were by no means obvious. Again, the claims of industries urgently in need of modernisation were ignored without liberal justification. Quite possibly all this was because the then government desired to be cautious and circumspect in introducing the new scheme.

However, it was not long before the Finance minister saw or could be persuaded to see that the investment allowance scheme had to be liberalised if it was to serve its purpose. Consequently a special committee was set up in the Finance ministry to consider in depth the representations received from various industries

for inclusion in the scheme. Many industries seem to have taken advantage of the opportunity given to them. It is to be hoped that the forthcoming central budget will put forward a scheme of incentives for modernisation and re-equipment which would help the concerned industries to improve productivity as well as increase their production.

Meanwhile, in a speech made at the recent annual session of the Federation of Indian Chambers of Commerce and Industry, the then president Mr M.A. Arunachalam put forward a number of suggestions for improving the investment climate so that the stagnation in capital spending in the corporate sector could be ended. One of the suggestions was that the investment allowance should be extended to industries in general, while those which are considered to be of more significance to the economy than the others might be given the allowance at appropriately higher rates. It should be easy for the government to see merit in this project. However, it may still be useful to bring to its attention specific cases of industries, the claims of which have been overlooked in the existing scheme of investment allowance.

investment allowance

The scheme of investment allowance is already applicable to power generation equipment, transformers, switchgears and electric motors, but the electrical cable and wire industry is excluded from its purview, although it is quite relevant to the development of power generation. A complete scheme of incentives for the power sector cannot reasonably ignore the claims of this industry for the facility of investment allowance. The plant and the machinery in cable factories bear a heavy burden of obsolescence, the earliest plant being about 20 years old and the latest some 10 years old. In contrast cable factories abroad replace or modernise their equipment every six years. This, for instance, is the case in Poland.

There is also an additional reason of some urgency for the modernisation needs of the electrical cable industry to be specially provided for. The industry is planning to introduce the manufacture of cross-linked polyethylene (XLPE) cables.

This is in line with the government's policy for the industry and the concerned authorities have already issued letters of intent or industrial licences to eight cable units for installing capacity for XLPE cables. In addition to the normal expenditure on modernisation and re-equipment the industry may have to incur a further capital investment of the order of Rs 24 crores for putting up manufacturing facilities for XLPE cables. The cable and wire industry is a capital intensive industry and it cannot meet in full its relatively large investment needs from its internal resources, especially as its utilisation of capacity and its profitability have been fluctuating in recent years for reasons beyond its control. It is worth noting here that this industry did enjoy the benefit of the development rebate when that scheme was in existence, but was denied the investment allowance when it was introduced.

This industry was also considered a priority industry under section 80(1) of the Income Tax Act till 1972 and was getting a rebate of five per cent on that account. Its further development is important for the national power sector and its development, as is evident from the fact that our country is still importing

more than seven-crore rupees worth cables and wires every year. This import is bound to increase in the coming years unless the domestic industry is enabled to develop its potential through suitable incentives. The export capability of the industry is also relevant to this context. Exports were negligible upto 1960-61 which year too they amounted to about Rs 3 lakhs. By 1965-66, the value of exports of wires and cables increased to Rs 117 lakhs. They grew further to reach the level of Rs 11.3 crores in 1970-71 and by 1974-75 they had grown up to Rs 17.3 crores. Estimates for 1976 indicate a level of exports of Rs 28 crores while the corresponding achievement of the industry in 1976-77 could be of the order of Rs 28 crores. A point worth emphasising is that in addition to specific exports of wires and cables, the industry is also making a substantial contribution to the foreign exchange earnings of the country by obtaining orders for electric cables and wires under IDA contracts for electric transmission and fertilizer plants. There are vast new opportunities for the export of electric wires and cables to Gulf countries, while the Soviet Union and some of the east European countries are also important customers.

Eastern Economist 30 Years Ago

May 9, 1947

The prevalent prices of petrol are an anomaly, it would appear. The prices at present ruling in the country are fixed, it is stated in a press report, on the basis of the ruling rate in America, plus freight from America to India, less freight from India to the Middle East. The resulting price from these circuitous calculations is 160 sh. a barrel, which compares with 32 sh. a barrel in Abadan. The price of Russian oil is 18 sh. a barrel. Russian oil is also entering the markets. The usefulness or otherwise of such a fixation of price for petrol is understandable from the fact that our requirements of this essential oil are met from the Middle East and not from America. The enormity of the price difference is glaring. The ruling price in India now is 5 times that of Abadan. The price of Russian oil is still less than that of the Middle East oil, about 50 per cent, of the latter. The government of India are said to be considering the question of carrying out an intensive oil prospecting programme with the aid of up-to-date machinery and experts imported from America and Russia. Presently immediate proposals on which Government's attention is being bestowed are said to be,

contacting Russian authorities through Russian Trade Commissioner at Calcutta to find out if and how imports of Russian oil could be revived, securing a share in the management and control of oil companies and in the distribution and fixation of prices for petrol, and obtaining facilities for Indians to receive training in the business as well as the operational side of the industry. It is permissible to ask, in view of the essentially long term nature of these propositions which will take time to emerge into agreements and contracts, if the government are not considering the possibilities of getting the price reduced to a more reasonable level from the present unnecessarily, and presumably unwarranted, high level. For long this country has suffered, on account of lack of any effective voice in the international sphere, from the depredations of powerful price-fixing and distribution cartels. With her reborn independence, this country must bestir herself and get her due share of the industrial raw material of the world at fair and reasonable prices and refuse to surrender to the discriminating tactics of international power combines.

he government should therefore extend its cooperation and assistance to this industry at the present time by favourably considering its claim for investment incen-

tives on its specific merits as well as in terms of a much needed general policy of stimulating capital spending in the corporate sector.

situation has remained serious in spite of the import of one mu power daily from Kerala.

The Kalinadhi project may provide some succour only from the middle of next year when the first unit of 130 MW is scheduled to be commissioned. There may be the usual delays and tangible power generation can be expected from this source only from the end of 1978 though regular generation over nine months can be assured only after the Stupa reservoir comes into being.

The requirements of Tamil Nadu and Karnataka are so great that there are proposals for installing four gas turbines of 50 MW each in Karnataka and three gas turbines of 75 MW each in Tamil Nadu. These sets had to be imported and it is claimed that they can be in operation within 18 month. No time was lost in arranging imports. The outlays on these turbines are not prohibitive. But the running costs are really so. How exactly the centre will decide in respect of sanctions of similar requests from other states in difficulty cannot be foreseen, but there is a clear case of failure on the planning front and no great success in efforts to improve the operating efficiency of thermal stations.

increase in demand

There has no doubt been a big increase in the generating capacity in the past two years and daily power generation touched a new peak of 282 mu for the whole country recently against 225 mu daily two years back. But the demand for power also has increased spectacularly as witnessed by the happenings in Uttar Pradesh, Maharashtra, Madhya Pradesh and Andhra Pradesh. The earlier impression that new additions of over 3800 MW in two years would make for easy power situation and give rise even to problems of utilisation has not proved correct. With the promotion of power intensive industries and use of electricity for agricultural purposes on an increasing scale, the additional availability has not been adequate to meet new demands.

The failure of the south west monsoon in some regions had also added to the problems of many electricity boards. With a new government in office it has now to

Out of power

THE POWER situation in the southern region has turned grim again and restrictions on consumption are in force in three of four states. The decision of the Andhra Pradesh Electricity Board to impose a cut of 30 per cent on HT consumers has come as a surprise as it had been hoped that the commissioning of two units in the Lower Sileru project and the additions to capacity of the Kothagudam thermal station will even throw up a surplus which can be used by Tamil Nadu and Karnataka. But the difficulties in running the units in Lower Sileru, poor storage and delay in completing the Kothagudam extension schemes have upset calculations, and Andhra Pradesh is experiencing power shortage. In Tamil Nadu too the output of the Ennore thermal station has been adversely affected by the troubles experienced at Ennore. It had been expected that the fifth unit of 110 MW would make a significant contribution after it was commissioned in August last year.

technical troubles

A major technical failure immobilised the set for several months and it has been in regular operation only from December 1976. Soon after, however, new troubles arose and two units having aggregate capacity of 110 MW have had to be shut down for carrying out repairs. These units are scheduled to be back in operation only in the latter half of April and early May. The 'loss' in power generation due to these mishaps can be easily 500 million units.

As the failure of the south west monsoon and the heavy rains during the north east monsoon in some parts of the state only in the plains led to inadequate rainfall in catchment areas and a reduction in storage by over 1500 million units, the gap of 2000 million units could not be offset by increasing export from Neyveli.

All the units from this centre have been functioning highly efficiently. But for the larger assistance extended by Kerala and an increase in export from Neyveli, the situation in Tamil Nadu would have been really calamitous.

failure of monsoon

The Tamil Nadu Electricity Board wanted to avoid big cuts in the summer months and was desirous of regulating operations of industries on a planned basis. It was with this view that a cut of 30 per cent on HT consumers in July last year and of 25 per cent for continuous process industries was imposed. The cement units were given preferential treatment for some time with supply of full power for fulfilling export commitments and a reduced cut of 15 per cent for other purposes. This concession had to be withdrawn recently with a deterioration in hydel reservoir. As hydel reserves declined to the low level of 218 mu it had to be decided to increase the cut to 40 per cent from 30 per cent. There is no distinction between different classes of consumers. In the HT group and even those in the essential category are now subject to a cut of 30 per cent against 25 per cent until recently. Some efforts are being made to supply power from Kerala to the cement units for avoiding a big decline in output but the fundamental situation remains grave and no significant improvement is expected until the onset of the south west monsoon.

Karnataka has been increasing the power cut to 50 per cent from 25 per cent as stated above in summer months for two years in succession because of increase in consumption and inadequate rainfall in the Sharavathi catchment area. Karnataka too has lost about 1000 mu due to a poor south west monsoon while consumption has been increasing all the time. The

be examined how power projects can be implemented differently and on a war footing. Fresh additions have to be of the order of 3500 MW annually and it will be worthwhile to recast the annual Plan for 1977-78 in such a way that the bulk of the increase in expenditure, as compared to 1976-77, is utilised for augmenting generating capacity, improving transmission systems and intensifying oil exploitation in the Bombay High. In spite of the availability of the required physical resources it has not been possible to install more than 2000 MW in a year so far.

The inadequacies of particular state electricity boards and the limitations of the existing administrative set-ups have probably been responsible for the shortfall in targets for power planning. These deficiencies have to be overcome and the required progress can be achieved by entrusting work to several agencies and provision of adequate funds for new projects regardless of the viability of the state electricity boards concerned. The only stipulation should be that new projects should function under the supervision of the central government and the generated power should be supplied to the electricity boards on a basis which will amortise the new investment in a stipulated period.

dependence on hydel

In the southern region particularly the dependence on hydel power has to be minimised as, even with the substantial additions to thermal capacity, in Tamil Nadu and Andhra Pradesh the thermal content of the generating capacity by the end of the fifth Plan will be only 33 per cent of the aggregate capacity of 7360 MW. This is because there are no thermal stations in Karnataka and Kerala and fresh additions in the last two years may be mainly on account of hydel stations. The variations in availability even with the same generating capacity will be evident from the fact that in a year of poor monsoons the shortfall in hydel generation can be easily 3000 mu. The shortfall can be even 5000 mu in a poor year.

If there is no reserve capacity and insurance against failure of the monsoon, it

will be recognised that there will have to be a cut of 15 per cent in the region and if surplus states take their full requirements, as is likely, the cuts in deficit areas will necessarily have to be higher than 15 per cent. It is therefore imperative that there are two super thermal stations at Ramagundam in Andhra Pradesh and Neyveli in Tamil Nadu even while attempting to increase the capacity of existing thermal stations by 1500 MW.

Tamil Nadu is in the awkward position of having to endure high cost power and it will be even worthwhile to purchase power from Andhra Pradesh and Kerala on a cheaper basis instead of generating higher cost thermal power, based on

"imported" coal. Only in Neyveli can there be generation cheaper than would be possible with imported coal.

There has to be a regional approach in planning and whatever be the ultimate decisions, aggregate capacity will have to be a minimum of 12,000 MW by 1984 with a thermal content of 7000 MW against only 2,387 MW out of a target capacity of 7,360 MW by 1978-79. Even by the end of this Plan the proportion of thermal content in the aggregate capacity for the whole country will be 53 per cent. There has thus to be not only massive additions to the capacity in the southern region but also greater emphasis on thermal projects for several years.

Textile workers of Ahmedabad

ALTHOUGH THE welfare of industrial workers is receiving increased attention at the hands of trade unions, employers and the government, much remains to be done to improve their living conditions. A recent socio-economic survey, conducted by Dr Pramod Verma,* of the needs and welfare of workers in certain labour colonies of Ahmedabad may help to place this problem in perspective.

The study holds that the housing conditions in these colonies are positively bad, and that 80 per cent of the residents are acutely aware of this situation. A very large percentage, (nearly 85 per cent) are tenants and pay house rent which varies from Rs 5 to Rs 14 per month. Most of these one-room houses have make-shift roofs and do not have any provision for washing or bathing. However, 92 per cent of the *Chawls* residents have access to water taps for clean drinking water and more than 75 per cent have joint toilets.

Though the industrial workers do not have very large families, the limited space makes their living quite difficult. Only

39 per cent have more than three children and 43 per cent have between one and three children. But in some places as many as seven persons living in single rooms accentuate the problem of sanitation. These rooms have poor ventilation and are usually without light. Poor drainage further aggravates insanitary conditions.

An important observation of the report is that wherever workers own the houses—even one-room houses—they maintain better sanitation and personal cleanliness. These owner occupants seemed to be happier than those living in rented rooms in *chawls*. It follows that the low rents received by *chawl* owners give them little incentive to improve the sanitary conditions and the poor residents do not have the initiative or resources to bring about these improvements themselves.

As many as 38 per cent of the workers have one or two school-going children and 18 per cent of them have more than three. Naturally, therefore, a large number of the workers feel the need for primary schools in their neighbourhood so that the children do not have to walk long distances. Only five per cent of the children in these colonies can afford any means

*Labour in a Textile City: by Dr Pramod Verma, Professor of Industrial Relations, Indian Institute of Management, Ahmedabad; published by the author.

of transport. It is for this reason that most married workers, particularly beyond the age of 45, lay great stress on community facilities such as playgrounds and vocational training, while giving their priorities in respect of their welfare needs.

An interesting aspect of the study is that the residents of houses with mud walls and make-shift roofs are aware of good living. As many as 30 per cent have transistors, 43 per cent own watches, 10 per cent have sewing machines, 12 per cent have electric fans, and about 13 per cent have bicycles. On the whole it appears that articles which help the workers either to keep time or to travel to the place of work are secured. On the other hand, furniture and utensils are inadequate, so that the articles which can make their living comfortable receive less attention.

Their social awareness is also proved by the fact that nearly 50 per cent read newspapers regularly and another 20 per cent occasionally. Their other social activities include visit to cinemas which is a

privilege of nearly 25 per cent of them, the remaining 75 per cent do not visit the cinemas at all. Tea drinking is almost universal; only eight per cent do not drink tea. Nearly 72 per cent use tobacco in one form or another, while 36 per cent chew *pan*. Strangely, only four per cent state that they take liquor and other intoxicants a statistic which is difficult to accept. The method of survey with direct interviews has shown its weakness in this respect. A man who drinks may not like to inform an interviewer about his drinking habit due to the social stigma attached to it. In fact the notes of the field report reveal that only a few days before the survey a *chawl* area was raided by the police in the course of their investigation of illicit distillation or other excise or prohibition crimes. The residents naturally thought that the interviewers were helping the police. The field report also gives the impression that many people who initially deny being habitual drinkers later on admit taking an occasional drink or two.

Several agencies undertake welfare activities in the working class areas of Ahmedabad. The Textile Labour Associa-

tion, with a long history, has taken up projects such as boys hostel, ladies hostel, cooperative bank, khadi cooperative store, library and reading rooms, workers education schemes, sewing classes, embroidery classes and games activities for children. Most of the facilities in this list touch the workers only on the fringe, because their basic demands for improved sanitation, primary schools and cooperative housing are not met. Even the programme of the Ahmedabad Municipal Corporation (AMC), which included sewing class for ladies, tailoring and carpentry class for men, creche, library and reading room, games for children and primary schools, served the industrial workers only partly.

The AMC annually spends nearly four crores of rupees on public health, medical aid and public education in the entire city, but only a very small portion goes to the workers' facilities. The report states that the mill-owners and charitable trusts in the city have also been taking interest in general welfare, but their activities need to be stepped up in terms of both expenditure and effort.

RECORDS AND STATISTICS

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CAPITAL'S CORRIDORS

R. C. Ummat

Indo-Soviet collaboration • Engineering exports • Fertilizer pricing

FURTHER EVIDENCE was available last week during the visit of the Soviet Foreign minister, Mr Andrei Gromyko, of the Janata party's government continuing to have cordial relations with the Soviet Union not only in the political field but also in the economic sphere. The minister for External Affairs, Mr Atal Behari Vajpayee, set at rest all speculations about the new government's attitude towards the Indo-Soviet Friendship Treaty by declaring that the present government stood by this pact entered into by the previous government. He as well asserted that Indo-Soviet relations had stood the test of time.

new credit

Mr Gromyko's satisfaction over his talks with the prime minister and the minister for External Affairs is evident from the three agreements which he signed with our government during his visit. The first agreement relates to the extension by the Soviet Union of a new line of credit of 250 million roubles (roughly Rs 225 crores) for the import by us of equipment for metallurgical and mining industries. This credit can also be utilised by us in some other fields in consultation with the Soviet Union. The loan is repayable over a period of 20 years with a three-year grace period and carries a nominal interest of 2.5 per cent.

The new line of credit has been provided to us by the Soviet Union after about 10 years. The Soviet Union had made available a credit of Rs 250 crores in 1965 for setting up the Bokaro steel plant and a general-purpose credit of 300 million

roubles in 1966. The provision in the agreement on the new line of credit that it can be utilised apart from metallurgical and mining industries for some other purposes also apparently has been made in view of the difficulties which we encountered in utilising fully the 1966 general-purpose credit.

import of crude

The second agreement envisages the import of one million tonnes of crude oil by us from the Soviet Union during the current calendar year. An agreement in principle in this regard, of course, had been reached a few months ago. As a result, the first shipment of Soviet crude has already been received here. The one million tonnes crude oil imports will involve an expenditure of Rs 80 crores.

The Soviet Union has agreed to import in return to this value steel and pig iron of which we have considerable accumulated stocks at present. This will improve the trade turnover between the two countries during the current calendar year to over Rs 900 crores from Rs 750 crores provided in the trade plan for this year signed in January last.

The third agreement covers the establishment of a troposcatter communication link between New Delhi and Moscow which will open a 12-channel all-weather, all-year communication link between the two countries. This project is estimated to cost Rs 4 crores. Technical assistance for it is to be provided by the Soviet Union.

* *

Despite the fact that the chairman of

the Engineering Export Promotion Council, Mr R.C. Maheshwari, has proposed a target of Rs 625 crores for the export of engineering goods during the current financial year, the union ministry of Industry has fixed this target at Rs 750 crores. Mr Maheshwari himself, in fact, had expressed the hope that on a review in September/October, the target proposed by his council could be suitably revised upwards, but this revision would have been only to the extent of Rs 25/50 crores. The engineering industry, thus, has been set a challenging task, which, of course, the president of the Association of Indian Engineering Industry (AIEI), Mr S. Santhanam, feels is not unattainable with the current thrust on marketing abroad.

The high sights which the industry has set on the export front apparently has its genesis in the commendable performance it has recorded during the last two years. The last year's target, for instance, had originally been set at Rs 500 crores worth of exports, as against the performance of about Rs 408 crores in the previous year. But the latest indications reveal that exports during 1976-77 might aggregate to Rs 550 crores. The export orders with the industry at present exceed the outstanding contracts worth about Rs 500 crores at the start of the last year by as much as slightly over Rs 300 crores. Vigorous efforts are being continued to book more orders.

export target

If the industry is able to achieve exports worth Rs 750 crores during the current financial year, the AIEI president feels that the target for exporting engineering goods worth about Rs 1,000 crores by the turn of the current decade could be revised upwards. In his opinion, it should be possible to attain the target of Rs 1,000 crores worth export by 1979-80 itself.

Addressing a press conference here last week, Mr Maheshwari outlined the following programme for stepping up the exports of engineering products during the current financial year:

(i) concerted efforts at capturing selected markets for selected products, keeping

in view the endowment factors of the country and the comparative strength and weaknesses of our competitors;

(ii) collection and dissemination of market intelligence amongst exporters through increasing and strengthening the foreign outposts of EEPC and streamlining of their operations;

(iii) adoption of consortium approach in the west Asian markets in view of the need for pooling the limited production and capital base of most Indian engineering exporters to cater for the extremely large value west Asian contracts;

(iv) ensuring of necessary inputs to industries which have large idle capacity and whose products have export potential;

(v) efforts at cost reduction and increasing of productivity by undertaking modernisation of plant and equipment wherever necessary and seeking all cooperation of labour;

promotional activities

(vi) participation in trade fairs and exhibitions abroad and organising wholly Indian engineering exhibitions on the pattern of INDEE 1977 in Singapore with a view to improving the image of the country as an industrial country;

(vii) intensification of sectoral publicity initiated last year;

(viii) monitoring of the performance of particularly large value contracts and initiation of timely action to remove constraints;

(ix) concerted efforts at availing of the GSP facilities of the European Economic Community and the United States of America; and

(x) bringing out a prestigious publication on the success stories of engineering exports so as to remove credibility gap about this country being a dependable source of exports and generating of confidence among the principal contractors in developed countries for giving sub-contracts to our manufacturers.

Mr Maheshwari clarified that the cash subsidies provided for the export of engineering goods were designed to

compensate the industry for the various local taxes the incidence of which amounted to 8/10 per cent of the cost of production of an item. The excise duty incidence was over and above this. He as well called for the liberalisation of the provision of deferred payment facilities on a selective basis to importers in the developing countries in a bid to compete successfully with the exporters of the advanced countries. The comfortable foreign exchange situation, he said, was a helpful factor in this regard.

On its part, the AIEI is initiating studies for technical oriented cost reduction activities such as industrial engineering, in-house R&D, utilisation of scarce resources such as materials and energy, advancement of value engineering concepts and training and re-training of technical manpower. It has also planned three trade missions during the current financial year to Latin America, west Asia and west Africa and is also shortly opening overseas offices of the association to facilitate marketing in the developing countries. The first overseas office is being opened on June 1 in Saudi Arabia which will be representing a group of non-competing companies in the public and private sectors.

The association has also planned to organise a second engineering trade fair in early February next year in New Delhi where overseas buyers will be provided an opportunity to see for themselves at one place the technology and capability of our industry.

increasing production

The AIEI is as well preparing a policy paper on fiscal and economic affairs with special reference to the engineering industry with a view to promoting production of engineering goods. An effort is envisaged to be made in this paper to include in it industry's proposals regarding generation of investment, revival of demand, corporate tax relief and fiscal support for export promotion, etc.

Another important activity that the AIEI has proposed to undertake this year in support of the union government's programme of enlarging employment

opportunities in the countryside through the establishment of small and cottage industries is the deputing of technoeconomic teams to survey 24 villages—six villages in each of the northern, western, southern and eastern zones—to identify the industries which can be established in rural areas, the investment needs of these industries, the employment potential they will have and the constraints which may have to be removed in their establishment. These reports are expected to be ready within three months. The AIEI also intends to ask large and medium enterprises to encourage subcontracting of work to small units for supply of parts and components.

* *

The union government is expected to make provision, though a token one, in the current year's budget for setting up two natural gas fertilizer plants based on the gas resources in the Bombay High area. This provision will enable undertaking of feasibility studies for the plants. The studies are likely to be entrusted to the Planning and Development Division of the Fertilizer Corporation of India which has already built up capabilities to set up fertilizer projects based on various feedstocks.

Marathe committee

The Marathe Committee, which has been looking into the pricing pattern of the fertilizer industry in view of the escalations in cost of production especially since 1973-74, is understood to have submitted its report to the ministry of Petroleum, Chemicals and Fertilizers. A couple of alternatives are said to have been suggested by the committee to ensure remunerative functioning of the plants, especially those set up recently which threaten to become sick even before they take off. Fixation of different retention prices for groups of fertilizer projects according to their feedstocks and age is not ruled out.

The committee was not expected to suggest the consumer prices of fertilizers. That is a decision to be taken by the government on such considerations as the support price policy for farm products.

Reserve Bank : freedom within government, or from ?

S. L. N. Simha

Mr Simha is the Director of the Institute for Financial Management and Research, Madras. He has argued in this article that the Reserve Bank can have independence *within* the government, but not *from* the government. His credentials are formidable. Author of *History of the Reserve Bank of India, 1935-51*, Published by the RBI, he was an officer of the Bank for 25 years, holding senior positions. He was also the General Manager of the Industrial Development Bank of India for some years. He worked at the International Monetary Fund for about five years, first as a staff member and later as a member of the Board of Executive Directors.

THERE WOULD appear to be a lot of excitement in many quarters at what is regarded as a move on the part of the Janata government to make the Reserve Bank of India an 'autonomous' institution. Newspaper editorials have been written and representatives of the employees of the Reserve Bank have welcomed 'the reported move by the central government to make the Reserve Bank of India a truly autonomous authority on the lines of its counterpart central banking institutions in other democratic countries'. The Reserve Bank staff would appear to be in favour of not only the 'autonomy' of the Reserve Bank but also of its becoming again the overlord of other financial institutions, in particular the Industrial Development Bank of India and the Unit Trust of India.

The question of the independence of a central bank is a very old one, debated in various countries from time to time. In this matter, there is some substance and a lot of shadow. It would be useful to discuss the various aspects of the question in general terms and also with reference to India. It is the author's view that the last word on the subject was said by a joint committee of the US Congress, more than 25 years ago, that a central bank can only have independence *within* the government and not *from* the government.

symbolic disapproval

The reason for the general expectation of the new government's desire to make the RBI 'autonomous' seems to be the merger of the erstwhile departments of Revenue and Banking with that of the Finance ministry proper, under the overall stewardship of the Finance minister. The depart-

ment of Banking, which was established shortly after the nationalisation of 14 major scheduled banks in July 1969, was till a couple of years ago an integral part of the Finance ministry. It was only about two years back that the departments of Banking and Revenue were separated from the Finance ministry proper and put in charge of a practically independent minister of state. The regrouping of the

POINT OF VIEW

above departments may be partly due to administrative convenience and partly this may be by way of a symbolic disapproval by the new government of the 1969 nationalisation measure.

In other words, it would be premature to envisage a radical change in the attitude of the Janata party to the relations between government and the Reserve Bank of India. In the manifesto of the Janata party, all that has been said about the banking and credit system is 'banking has been politicised and threatens to place the entire credit system in jeopardy'. This is a terse statement like the aphorisms of Patanjali and different people can draw different interpretations of government's intentions in regard to the restructuring of the central bank of the country. However, according to the author, it would be wrong to expect any major change, so far as the formal relations between govern-

ment and the Reserve Bank are concerned. So, there is hardly any justification for rejoicing in the matter.

It should be noted that even in pre-nationalisation days, there was an important banking section in the ministry of Finance, under the charge of a joint secretary or an additional secretary. Of course, this department was largely concerned with administering the Banking Companies Act as it was then called. With the nationalisation of the major segment of banking in 1969, the establishment of a separate department of banking was clearly necessary, for administrative convenience. One may have differences of opinion as regards the scope of the Banking department's work and also whether it should form an integral part of the Finance ministry or should function as a separate entity, but there can be little doubt about the need for a full-fledged department of Banking. Since denationalisation is impracticable at this stage, the down-grading of the status of the department of Banking can only be a symbolic measure.

primary responsibility

Before considering the matter in the Indian context, it may be useful to make some general observations on the subject of independence of a central bank. In no country and at no time has the central bank been completely autonomous. Central banks are, broadly speaking, an integral part of government machinery. The primary responsibility of a central bank is to ensure the availability of currency and credit in a measure that meets reasonably adequately the requirements of the government and the private sector. The theory of central banking is that the bank will exercise independent judgment in the matter of how far it should go in providing currency and credit, without jeopardising domestic price stability and the equilibrium of balance of payments.

Unfortunately, with sporadic exceptions,

no central bank has been able to withstand the demands of government for the monies it requires, whether for defence or for administration or for economic development. But, central banks generally express their views privately to governments as to how far the creation of currency and credit can go and suggest measures of a fiscal character which could obviate excessive creation of money by the central bank. The crux of the matter lies in the force and persistence with which a central bank offers such frank advice to government. There are not many examples of courageous and persevering heads of central banking institutions or of powerful boards to back them up.

This is partly a matter of personalities and partly a matter of the statutory provisions concerning the appointment of the top executives of the central bank and the termination of their services, the composition of the board of directors and the degree of formal surveillance over the broad working of the central bank by the parliament of the country.

strong traditions

Practices in this regard vary a great deal. In a country such as the Federal Republic of Germany, there are strong traditions of independence of the central bank. In the USA, congressional surveillance over the central bank's functioning is considerable and this affords some measure of protection to the central bank against undue dominance by the executive branch of government. As regards the Bank of England, the oldest of the central banks, the position has varied, talking only of the years since World War II. However, in the UK system, the governors have a certain inherent capacity for independence, since they are not appointed from among government officials. In fact, the general policy is not even to promote people from within but to bring them from outside, mostly from merchant banking houses.

It is generally agreed that, while ultimately the wishes of the elected government must prevail, a central bank can do much to tender objective and constructive advice and 'discipline' the government in financial matters. This calls for traditions

of appointment of very able and experienced persons as governors, with a fairly long tenure of office and with a procedure that makes it very difficult for a government to dismiss the governor. Further, the boards of directors must comprise able and experienced people and they must also be given reasonably long tenure of office. Also, the central bank must be under obligation to issue, from time to time, comprehensive reports on its policies and operations and these reports must not only be laid before Parliament for information but for brief discussion too. Finally, the laws relating to budgetary matters must be such as to put a check on budgetary deficits deviating substantially from earlier estimates presented to Parliament.

While the quantum of credit creation for government's use is one of the most important issues concerning the autonomy of a central bank, there are also other matters on which there could be differences of opinion between the central bank and the government. But, these are relatively of less importance. Thus, the bank rate question is often one of disagreement. In most countries, it is now accepted that it is the government's responsibility to determine the level of bank rate though, undoubtedly, initiative for changes would have to come from the central bank. In regard to the use of the other instruments of credit policy, central banks generally enjoy independence, though this is a puerile matter in the context of a basic imbalance emanating from a substantial deficit of government budget.

financial institutions

Another area where there could be differences of opinion between the central bank and government is with regard to the character and functioning of financial institutions, including the question whether they should be state-owned or privately owned, but with a broad measure of government regulation. In most countries, central banks have been opposed to financial institutions being in the public sector and so they have opposed nationalisation measures. However, in this matter, it is fair that government has the final voice, though the central bank would be right in insisting that even public sector institutions must be run efficiently, the

channelling of credit being done without political pressures.

Most central banks are free in the matter of recruiting staff and fixing their emoluments, though there is some consultation with government in this matter, in regard to top emoluments,

Concluding the general discussion, it may be said that central banks can make a useful contribution to the establishment of a good institutional framework for the provision of credit and for observing a modicum of financial discipline not only on the part of private sector but on the part of the government too. If this role has to be effective, it requires appropriate statutory provisions, healthy traditions on the part of government and vigilance by Parliament. Experience has shown that this combination of favourable circumstances prevails in very few countries.

Indian context

Now, let us turn to the situation in India. Leaving aside, for the time being, the happenings of the last two years, one could say that the relations between the government and the central bank in India have not been unusual or exceptional, judged by standards abroad. In the forty years between 1935 and 1975, the Bank had on the whole very able, experienced and dedicated governors. The first governor was a banker, having been the managing governor of the Imperial Bank of India for many years. All other governors, with the exception of one, were members of the Indian Civil Service; one incumbent was a member of the Indian Audit and Accounts Service. All the governors displayed some degree of independence in the matter of advising the government, though the extent of this varied from person to person.

The post-independence period is of greater relevance to our discussion. During this period, the relations between the Reserve Bank and the government have been generally close and cordial. It cannot be said that the Bank enjoyed any great degree of autonomy; nor can it be said that there was any attempt on the part of the Finance minister to muzzle the Bank. There is, of course, the resignation of Mr B. Rama Rao, a few months before the expiry of his extended tenure of office.

The immediate provocation was the sharp raising of the stamp duty on usance bills by the then Finance minister, Mr T.T. Krishnamachari, by way of 'a fiscal device with a monetary intent'. However, the real reasons would appear to be not merely temperamental incompatibility but also the fact that Mr Krishnamachari himself had been considered for appointment as governor of the Reserve Bank. But the idea fell through because of the objection raised by the then governor-general, according to a very reliable source and Mr Rama Rao was chosen eventually. The relations between Mr Morarji Desai as Finance minister and Mr H.V.R. Iengar as governor of the Bank were correct if not very cordial. Mr Iengar's successors seem to have had good rapport with the Finance minister. One governor, Mr L.K. Jha, relinquished his term prematurely but it is believed that this was on account of differences of opinion with government on the issue of the nationalisation of the 14 major commercial banks rather than on any strict central banking matter.

disappointing record

So far as control over budgetary deficits and monetary and credit expansion is concerned, during the post-war years as a whole, the record of the Bank has been rather disappointing, especially in the last 10 or 12 years.

The author does not know much as to what has been happening in the Reserve Bank in the last two years. There was first the appointment of the secretary of the Banking department as governor, as a temporary arrangement, for three months. Later, the chairman of the LIC was appointed as governor. It is difficult to say that the chairman of the LIC is not suited to hold the office of the governor of the Reserve Bank. What is, however, wrong is to appoint people in the last minute without proper consideration and without giving them adequate opportunity to acquaint themselves with the problems which a central bank has to handle. What the author has observed is that, for over ten years now, appointments to the positions of governor and deputy governor are made in some atmosphere of secrecy and the incumbents assume office very quietly, if not stealthily as it were, which is con-

trary to the earlier healthy traditions of appointment some months in advance and preparation for the incumbent to assume the new responsibility.

For obvious reasons, it is not possible and appropriate to discuss the recent functioning of the Reserve Bank and its personalities. It has been stated that the credit restraints have been relaxed under political pressures. This has to be investigated, though it may be difficult to provide unassailable proof in this matter. The more relevant question is what safeguards can be provided against 'collusion' between the Reserve Bank and the Finance ministry.

separate agency

It is the author's view that the abolition of a separate Banking department will not be of any avail. As already mentioned, the numerous commercial and development banking matters do deserve the attention of government and the existence of a separate Banking department is necessary. One need not also object to a separate minister of state being in charge of routine banking matters. In fact, in a number of countries, there is a separate agency for the regulation of commercial banks, outside the Finance ministry and outside the central bank of the country. It is also not necessary for a single Finance minister to be the overlord of all financial institutions in the country.

The trouble with the functioning of the Banking department would appear to have been that it assumed control over the functioning of the Reserve Bank of India too. However, one wonders whether this fact alone explains the very substantial expansion of bank credit in the last year and a half. It needs to be investigated as to how this happened in a situation when the government and the Reserve Bank had voiced their concern about the revival of inflationary pressures. If it has been a case of divided leadership in the government so far as the relations with the Reserve Bank are concerned and the Reserve Bank acted on its own to permit substantial credit expansion, then it would be a case of the Reserve Bank's autonomy having misfired. Whether the individual commercial banks, especially the larger ones, received contrary directions from

the Banking department and the Reserve Bank also needs to be looked into.

The Reserve Bank consists of some able economists. The same thing is also true of the central board of directors of the Bank, which now has professional economists, chartered accountants, etc., unlike the position till about a decade back, when the board consisted mostly of industrialists and businessmen. So, there is all the more reason why the bank should have functioned somewhat more independently in recent years than before and yet, if the reports be correct, this has not happened.

In the author's view, there is a strong case for appointing a committee or commission to go into the functioning of the Reserve Bank and the relations between the Bank, the government and the nationalised banks and suggest steps to preserve a reasonable degree of independence of the central and commercial banks. It is more than 40 years since the Reserve Bank was established and while scores of commissions and committees have been appointed to look into the various sectors of the banking and credit machinery, the government has shied away from looking into the Reserve Bank's functioning. The functioning of eminent central banks like the Bank of England and the US Federal Reserve have been reviewed by expert committees and there is no reason why the Reserve Bank of India's affairs also should not be reviewed by an expert body. At the minimum, it would be in the nature of a periodical medical check-up of even a healthy person. Psychologically, the present is the most opportune time for doing this.

parliamentary vigilance

Having suggested this, I might as well make some observations germane to the subject under discussion. In my view, the most important thing is to ensure Parliament's vigilance with a view to achieving financial discipline on the part of government. This requires some arrangement whereby ceiling are fixed to the quantum of government's borrowing from the banking system and if these are to be exceeded, there must be a specific review by Parliament on the basis of a report issued by the Reserve Bank and the ministry of Finance. It might also be

helpful if Parliament were to define, in broad terms, the qualifications for appointment to the positions of governor and deputy governors of the bank and also the central board of directors of the Bank. Parliament should also prescribe a minimum tenure for governors and deputy governors. It is observed that now governors are appointed for very short periods like three months and one year. The procedure for terminating the services of the governor should be tightened, so as to make him practically independent of the whims and fancies of the Finance minister.

It is also clear that, in the interest of decentralisation of authority and decision-making, there should be no attempt to regroup the commercial banks into a few giant institutions. India has, fortunately, a diversified pattern of banking and this should be preserved. The range of operations of commercial banks would also have to be widened and there must be a process of ruthless weeding out of thousands of inefficiently run cooperative societies.

Government must not also attempt to

relink the IDBI with the Reserve Bank. As a matter of fact, some other institutions, such as the Agricultural Refinance and Development Corporation, should be delinked from the Reserve Bank, which must concentrate on credit regulation. One could even relieve the Reserve Bank of India of routine inspection of commercial banks, at least the nationalised banks.

In short, the effort must be to make the Reserve Bank concentrate on the job of regulating currency and credit and of ensuring domestic price stability and equilibrium of balance of payments. The Reserve Bank should be very active in its promotional role but, for this purpose, it is not necessary for the Bank to have many subsidiaries or operational responsibility in many spheres of credit. Ultimately, the freedom of operation of the Reserve Bank depends upon the wishes of Parliament as to how it wants the financial machinery to be run. For the new Parliament to apply its mind to this question, it would be helpful to have the guidance of an expert committee, as

already mentioned. But, under no system, can the Central bank have complete autonomy. It has to function as an integral part of government machinery, but with a little detachment from the main stream of government and with more than usual forthrightness and perseverance in giving its comments and advice.

Taking a short-term view, there is no reason to entertain doubts about reasonable autonomy to the Reserve Bank, under the leadership of the present prime minister and the Finance minister. The prime minister held, with distinction, the portfolio of Finance for many years and his relations with the Reserve Bank were, by and large, correct. The present Finance minister, who was a distinguished finance secretary for many years, knows the importance of respecting the advice of the Reserve Bank and of not using steamroller tactics to get his policies adopted by the Bank. The present team may, therefore, be expected to usher in very good traditions for a healthy relationship between the government and the central banks of the country.

Tea : let's create wealth from windfall

N. C. Kankani

There has been an unprecedented rise in tea prices at a time when there is not much shortage of teas if production figures are any guide. As tea is the common man's drink, the public is naturally interested to know about the possible reasons for this price increase. Mr Kankani, Group Manager, Jayshree Tea and Industries Ltd, has analysed the market forces in this article. He has discussed the short-term factors and has also taken a view of the prospects ahead.

THE SPURT in tea prices during the past few weeks has taken unawares even the most optimistic in the tea trade as well as the tea industry all over the world. India produced 512 million kgs of tea during 1976 as against 487 million kgs in 1975 which means 25 million kgs more. Out of this, seven million went out as additional exports, leaving 18 million kgs more within the country.

Notwithstanding this surplus production pumped into internal consumption, the recent steep rise in tea prices clearly indicates that domestic demand has not only absorbed this surplus quantity but has also dried up usual stocks of tea in the pipeline, and what is more, the demand from internal buyers still continues un-

abated resulting in brisk competition with exporters and a price rise from around Rs 12 in January to around Rs 25 to 30 in March, 1977.

There are three major reasons for this spurt in demand :

(a) Lesser production by Sri Lanka by 17 million kgs. Consequently the total world tea crop during 1976 as against 1975, including additional 25 million kgs by India and reduced by 17 million kgs. and three million kgs in the case of Sri Lanka and Uganda, has been up by 17.7 million kgs only. Out of this 18 million kgs was retained by India to meet the growing internal demand, the importing countries having to be content with

the same quantities which obviously could not take care of their rising consumption (Table I).

TABLE I
Crop Figures—Major Producing Countries
(million kgs)

	1976	1975	(+or—)
N. India	400.6	380.6	+20.0
S. India	111.5	106.6	+ 4.9
Bangladesh	33.1	28.9	+ 4.2
Sri Lanka	196.6	213.7	—17.1
Kenya	62.0	56.7	+ 5.3
Uganda	13.8	16.7	— 2.9
Tanzania	14.1	13.7	+ 0.4
Malawi	28.3	25.8	+ 2.5
Mozambique	10.8	10.4	+ 0.4
Total	870.8	853.1	+17.7

(Figures for Uganda are January-November and Mozambique for January-July only)

(b) A world-wide shortfall of 40 per cent in coffee production; mainly from Brazil which raised coffee prices, turning people to tea.

(c) Increasing consumption all over.

These demand factors were counteracted by India only up to seven million kgs, the 1976-77 Indian exports being 225 million kgs as against 218 million kgs in 1975-76. India's internal consumption showed a rise of nine per cent from 269 million kgs to 287 million kgs as against a rise of four per cent in production from 487 million kgs to 512 million kgs and an improvement of a little more than three per cent in exports from 218 million kgs to 225 million kgs.

Credit squeeze in India is not a new feature this year. It is there since 1974. Tea in the pipeline was gradually depleting during 1975 and 1976 and this was steadily reflected in tea prices, which otherwise would have been still higher. But for this reduction of tea-stocks in the trade pipeline, the lesser production of 487 million kgs during 1975 against 490 million kgs during 1974 could not have met the internal demand, maintaining at the same time the volume of our exports.

During 1976 the increase in CTC production in India was by 39 million kgs with a corresponding drop of 14 million kgs in orthodox production resulting in a net increase of 25 million kgs. This extra 39 million kgs of CTC would give double the cups and hence the cuppage increase should work 64 million kgs as given in the table II.

Out of this additional CTC tea, 6.7 million kgs more CTC tea was sold during 1976 through Calcutta auctions and 3.5 million kgs through Cochin auctions. The rest would have gone either in ex-factory sales or to direct export.

Now that the trade could get extra 18 million kgs out of the increased production of 25 million kgs plus sizeable quantity of more CTC giving double cuppage within the country this sharp rise from Rs 12 to Rs 25 to Rs 30 within a period of eight weeks is obviously unexplicable.

spurt in prices

Why was there this spurt in February/March 1977, instead of a steady rise over the last six months? India's total yearly consumption is around 290 million kgs which arithmetically works out to 24 million kgs a month on an average. Although tea consumption in India and for that matter in all other countries, in all the 12 months of the years is on an average the same (within a seasonal variation of perhaps five per cent to ten per cent, the production pattern from month to month, especially in India and Sri Lanka, who are the major tea producing countries, is most erratic.

The June to December production as usual was higher than the monthly average production and therefore the rising demand for tea month to month, right from June 1976 till December 1976, was being met by the surplus production which

would otherwise remain in the pipeline with the trade to be sold in the off-season of January-March. This impact of no carryover this year, against the usual carryover from surplus months, towards the beginning of the new year, resulted in the spurt in February-March 1977 and was felt sharply when releases from Calcutta auctions as well for ex-factory sales from north-east India were almost drying up faster than normal. This reflected in Calcutta offerings for the last few sales. In the context of tea prices becoming higher and higher, mainly with a support from export buying, what is not understood is the higher UK stocks which have gone up by about 13 million kgs to 15 million kgs for the same period of last year.

(in million kgs)

		Previous year	+
18-2-1977	73.3	64.6	8.7
25-2-1977	73.4	62.9	10.5
4-3-1977	73.4	62.2	11.2
18-3-1977	74.0	59.4	14.6

The total import of tea by the UK during 1975 was 215 million kgs. Imports during 1976 were 224.6 million kgs, an increase of 9.6 million kgs, the contribution from India being minus 3.2 million kgs. This higher build up of the UK stocks at a time when tea bushes in north-east India, a major tea-growing area of the world, were resting, is creating shortages of spot teas in producing countries where the tea in the pipeline has already dried up and any small export order, reflecting higher offtake than normal for the time of the year, obviously is creating panic among the local buyers who have got to keep going with the dwindling sales of loose tea over the counter.

According to the UK Board of Trade imports of tea into the UK during January 1977 from various countries were 30 million kgs against 19 million kgs during January 1976. In a tight supply situation for tea, this extra 11 million kgs, going to the UK during one month to build up their stock, naturally causes a major tilt in the price-scale all over the auction centres.

Nearer home, the offerings in Cochin auctions are at much higher levels. This

TABLE II
Tea Market Trend-1976 (in million kgs)

	Season 1975	Season 1976 (est)	Difference	Orthodox/CTC
1. Production				
North India	381	401	+20	-15 +35 = +20
South India	106	111	+5	+1 +4 = +5
	487	512	+25	-14 +39 = +25
(a) <i>Orthodox*</i>				
North India	130	115	-15	
South India	69	70	+1	
	199	185	-14	
2. Type of production				
(b) <i>CTC</i>				
North India	251	286	+35	
South India	37	41	+4	
	288	327	+39	
Grand Total	487	512	+25	

*includes Green tea.

in the normal course would have created a mild depression in tea prices in this centre:

	1977	1976
Sale No. 12 (L)	727277	455864
(D)	558769	310126
Sale No. 13 (L)	758706	483761
(D)	728233	366917
Sale No. 14 (L)	773877	461036
(D) Eastern holidays—no sale		
Sale No. 15 (L) Eastern holidays—no sale		
(D)	512285	455107
Sale No. 16 (L)	1324030	586466
(D)	727034	492449
Sale No. 17 (L)	936204	508861
Total	7046515	4120587 =
	+2925928	= +74%

This is over and above one million kgs (seven per cent of normal offerings) higher offerings upto sale No. 11 during the current year in Cochin. In spite of 3.9 million kgs extra offerings through Cochin, out of 4.4 million kgs increased production, during January to March, and crop prospects from the north-east as well south India, being so far good and no alarming news coming from Sri Lanka, the UK importers are continuing to build-up their stock at levels higher than those held during the corresponding period of last year and this too at $2\frac{1}{2}$ to three times the normal price. This is a sufficient and powerful indicator that the UK, according to its own assessment, expects a major shortage of tea for many months to come, although south India and Sri Lanka would produce quantities during April to June which would leave enough surplus for exports month to month and by then north-east India would come with its crops with a bang.

rising demand

Apparently the UK tea trades calculations are based on more demand for tea from France, Germany, Italy and other European countries where the switch-over from coffee to tea must be becoming faster. This is apart from rising per capita consumption of tea in the UK itself as already witnessed during 1976. In general, the FAO says that the dramatic increase in the price of coffee will benefit tea producing countries, though it points out that in the USA, 70 per cent of tea

consumption is in the form of iced tea. It therefore, competes mainly with soft drinks rather than coffee.

Tea prices, in their history, have always taken a lead from the UK, and the rising trend during early 1975—continued through 1976—was triggered off basically by increases in the packet price of tea, partially subsidised by the UK government. This time, the rise anticipated by the UK importers is based on their better understanding of the faster switch-over from coffee to tea habits, all over the globe, and especially over the area catered to by British re-exports. Or else, there would have been no necessity for the UK trade to increase stocks at levels higher than last year's and that too at rates three times the normal and take the risk of heavy losses and cumulative interest on working capital so blocked. This is so in spite of its awareness that any small support from the UK in tea selling centres is causing a rise of 40 to 60 pence per kg every week, and any retreat causing a similar slide back.

calculated risk

This is therefore a very much calculated business risk based on very vital statistics and scientific study of the overall situation aided by their market intelligentsia. Major packers in the UK are reported to have made an application to the price commission there to permit substantial rise of six pence for the quarter pound packet which, if allowed may work out to about Rs 9 per kg additional bidding capacity with UK importers. Some retailers are now forecasting that prices could reach around 30 pence for the normal quarter 10 gm packet of one of the more popular brands (equivalent to Rs 48 per kg) compared with around 21 pence today. All said and done, it is indeed intriguing to note an unusually heavy premium for orthodox teas, over CTC, a rare phenomenon to occur in scarcity conditions for any commodity.

The present trend is overdue for correction but should continue till the arrival of new season crop from north-east India and the start of rush crop from south India, Sri Lanka and African countries. No sooner their production in any month exceeds the average monthly consumption

figure in world trade, permitting the usual and normal exports from producing countries every month, tea shall start getting blocked in the pipelines with the trade. This will have its natural impact on the market, internal as well export. The force of this import will depend on various factors. Production during 1977 is likely to be substantially higher due to the extremely high prices now ruling. This may result from longer plucking rounds by many gardens; possibly lesser pruning areas, especially from Sri Lanka and south India.

better supervision

North-east India had perhaps already completed its pruning programme before these attractive price levels were recorded; more skiffing and cut across in place of normal pruning resulting in earlier recovery for tipping; almost no uprooting for replanting however fascinating may be the subsidy amount per hectare from any agency; and more awareness among planters of the profitability of better supervision and cultural practices.

Secondly, there may be a drop in the internal consumption of tea. The average housewife in India has already started feeling the pinch of the sharp rise in tea prices, in spite of the repeated talk that tea is the cheapest drink next to water. Retailers and the middlemen already report a drop of from 25 per cent to 40 per cent in their daily loose tea sales, over the counter. Indian monthly consumption (on average) being 24 million kgs even a drop of 30 per cent every month will account for extra 7.5 million kgs available for export or to fill in the trade pipeline which is completely dried up at present. The high prices have already continued during whole of February and March 1977 and are likely to be around these levels during April 1977. These three months alone may account for a surplus of 22 million kgs.

Meanwhile, attracted by the high prices prevailing in the Calcutta market, some tea—about 1,500 chests, according to some trade estimates—have come back to the city from the consuming centres in Maharashtra and Punjab. Market circles describe this reverse flow as quite unique. What has caused concern among domestic consumers is the sharp rise in retail prices

disproportionate to the quantity available for domestic consumption.

This surplus tea will be left with the trade, and will be additional to the extra production estimated during 1977. Looking to the weather reports so far available there is nothing alarming. Rather the weather for the tea crop is almost normal or average. In spite of the bad drought south India had last year, the production was higher by five million kgs. At this rate considering all the factors relevant for higher production, an increase of 15 million kgs from south India and 30 million kgs from north India, i.e. 45 million kgs from India alone during 1977 is a near possibility. This is over and above the 25 million kgs increase which we had during 1976.

falling consumption

This 45 million kgs added to the 22 million kgs of lesser internal consumption (during February, March, April 1977) comes to about 67 million kgs. The continued pattern of lesser consumption during May-June (if prices are still high for the consumer) may very easily help to place in all about 70 million kgs to 80 million kgs of more tea for tea importing countries of the world for absorption. A part of it, in the normal course, should be taken up by rising internal consumption during rest of the year, but the trend having been set for a drop due to continued high prices, the internal consumption may show, at best, the same figures as last year i.e. it may be static for the year 1977 till such time that the prices settle down to levels considered normal by the average tea consumer in the country.

This *may* or *may not* create indigestion. *May* because London stocks are already running higher by about 14 million kgs against the corresponding period of 1976 and Sri Lanka, having produced the lowest crop during the last 15 years, is not likely to repeat the similar low production figures. *May not* because the high coffee prices are likely to continue at about this level for the whole of 1977 and even beyond. The magnitude of the continued switch-over from coffee to tea in the coffee-drinking areas of the world may be a very decisive factor for the fortunes of

the tea industry in the short-term as well over a long period.

In normal years, the total world production of coffee has been about 60 million bags of 60 kgs each, i.e. 3,600 million kgs. Even a meagre five per cent switch-over from coffee to tea would amount to 180 million kgs and counting one kg of coffee giving 125 cups against 250 cups from one kg of orthodox tea, this five per cent switch-over would need about 90 million kgs of extra tea. This would make all the difference to the demand and supply situation in world tea markets, where the total world production of tea is around 1,500 million kgs.

Once we have crossed the year 1977, the year 1978 must again be considered as a very promising year for tea industry all over the world due to the following factors:

(a) The static tea consumption due to high tea prices, now prevailing in India as well as among the tea-drinking population of other countries would have become adjusted to the new price levels and a rising trend of consumption may start during 1978;

(b) Having produced sizeably larger crops for two consecutive years, India may not maintain the same trend as cultural practices for normal working in the long-term interest would by then become over due. While the higher production levels, achieved during 1976 and 1977, may also need consolidation, given a fairly normal seasonal year, not marked by widespread drought; and

switch-over from coffee

(c) The manyfold rise in the price of coffee (to £4000 a ton in London) in the past 18 months has created sufficient cause for a change-over from coffee to tea. Coffee drinkers having switched-over to tea during these two or three years, may become regular and dependable customers for tea all over the world—a greater and lasting asset left for tea industry of the world by this dramatic rivalry between coffee and tea.

The year 1977 and 1978 would perhaps prove very critical for Indian tea in capturing world markets with regard to conventional tea-drinkers as well as new converts from coffee. The government

of India has imposed an export duty on tea from April 9 at the rate of Rs 5 per kg and also withdrawn the drawback of excise duty. With these measures, it is normally expected that there will be more availability of tea in the internal market since the capacity of bidders on behalf of overseas buyers to compete with internal buyers is reduced to that extent. This should help to bring down domestic tea prices for top quality export grades and especially for orthodox teas which show a large premium over CTC teas which are mostly used for internal consumption. The gulf between orthodox teas and CTC would narrow down. All said and done any export deterrent at this time for Indian tea would not only water down all the promotional hard efforts made over the years by the Indian Tea Board but would amount to permitting an easy walkover to other competitors in the field in capturing new long-term markets. This may prove to be a hard blow to the foreign exchange earnings of our country for years to come.

buoyant market

Export earnings during 1976-77 from tea are reckoned around Rs 260 crores. Expecting a buoyant market during 1977-78, export earnings may be worked out even at the rate of Rs 18 per kg on approximately 225 million kgs giving a total of Rs 405 crores. Adding export duty and draw back gains of Rs 135 crores, we get a grand total of Rs 540 crores, against all-time record earnings of Rs 260 crores from tea. But in this process we might be tempting our patrons abroad to switch over to other countries to cover their full requirements for years to come.

Surely this is the time to encourage higher productivity from the existing tea areas so as to capture, once for all, major chunks of export markets, so easily accessible to any surplus tea made available during this period of world shortage. With expectations of higher crops, export controls might well leave a glut on the home market, defeating the very purpose of the exercise. The situation therefore warrants careful handling, so that fiscal intervention does not prove to be short-sighted interference with the market potential of this major export industry.

Valuing leasehold interest for wealth tax

P. Bhujanga Rao

This article explains here an important decision, concerning the Wealth Tax Act, pronounced recently by the Supreme Court. The court held that, where the leasehold interest in the land had to be valued for the purposes of this Act, the burden or disadvantage attaching to the leasehold interest must be duly discounted in arriving at the net wealth of the asset. The author is Assistant Editor, Supreme Court Reports.

WHEN THE leasehold interest in the land has to be valued for the purposes of Wealth Tax Act, the burden or disadvantage attaching to the leasehold interest must be duly discounted in estimating the price which the leasehold interest would fetch. To value the leasehold interest in a manner other than this would be to value an asset different in content and quality from that actually owned by the assessee. So held the Supreme Court in a recent decision in a wealth tax case.*

The property sought to be taxed to wealth tax was a leasehold interest in the land on which the assessee had built a substantial house. An important covenant in the lease deed was that the lessor shall be entitled to claim and recover 50 per cent of the unearned increase (i.e., the difference between the premium already paid and the current market value) in the value of the land at the time of transfer. In addition, the lessor had a right of pre-emption to the property after deducting 50 per cent of the unearned increase.

not deductible

In respect of an earlier assessment year, the assessee valued the property at six lakhs of rupees, but in a subsequent year he deducted from the gross value of the asset certain sum representing 50 per cent of the unearned increase in the value of the land. But this valuation was not accepted by the wealth tax officer. The appellate tribunal was of the view that no part of unearned increase was deductible in computing the value of the property for purposes of wealth tax.

The high court, on the other hand, held that the covenant was a disadvantage

advantage marching with the leasehold interest in the land and the unearned increase was liable to be deducted from the value of the property in arriving at the net wealth of the asset. Under the Wealth Tax Act the value of any asset other than cash, shall be estimated to be the price which, in the opinion of the wealth tax officer would fetch if sold in the open market on the valuation date.

important questions

There were two important questions before the Court : (i) what was the effect of the covenant in the lease deed ; does it merely impose a personal obligation on an assignee or is it a covenant marching with the land? (ii) could it be said that the income was diverted by the assessee before it reached him and so deductible from his total wealth or was it an income applied to discharge an obligation after it reached the assessee?

The Court had looked to see the effect of the covenant in the lease deed and concluded that what the term of the lease deed clearly meant was that whenever an assignment of the leasehold interest was made by the lessee the assignee would be bound by all the covenants contained in the lease deed, including clause 13 in the present case.

This clause would equally bind an assignee if he in turn wanted to assign his leasehold interest in the land to someone else. In such a case he would have to obtain the prior approval in writing of the lessor to such assignment. The lessor would be entitled to claim 50 per cent of the unearned increase in the value of the land. Therefore, whoever was the holder of the leasehold interest for the time being, was bound by the covenant, which ran with the land.

Further, the covenant is a part of the bundle of rights and liabilities attaching to the leasehold interest and as such it has the effect of depressing the value which the leasehold interest would fetch if it were free from this burden.

attached limitations

In cases of this kind where the owner holds a property subject to certain restrictions, it is a necessary point of enquiry as to how far these restrictions affect the value of the property and the property could not be valued as if it were unrestricted in any way. In the present case, the court held that the burden or limitation attached to the leasehold interest and it would not be correct to value the asset ignoring this burden or limitation.

Much the same result could be arrived at if the matter is looked at from another angle. The lessor had a right to 50 per cent of the unearned increase and the pre-emptive right to the land after deducting 50 per cent unearned increase from the price obtainable by the lessee. Once it is granted that under the lease deed the lessor had a bundle of rights which may be "something" more than the reversion, that "something" would necessarily be subtracted from the interest of the

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*Commissioner of Wealth Tax v. P.N. Sikand, decided on April 1, 1977 : per Bhagwati and S.M. Fazal Ali, JJ.

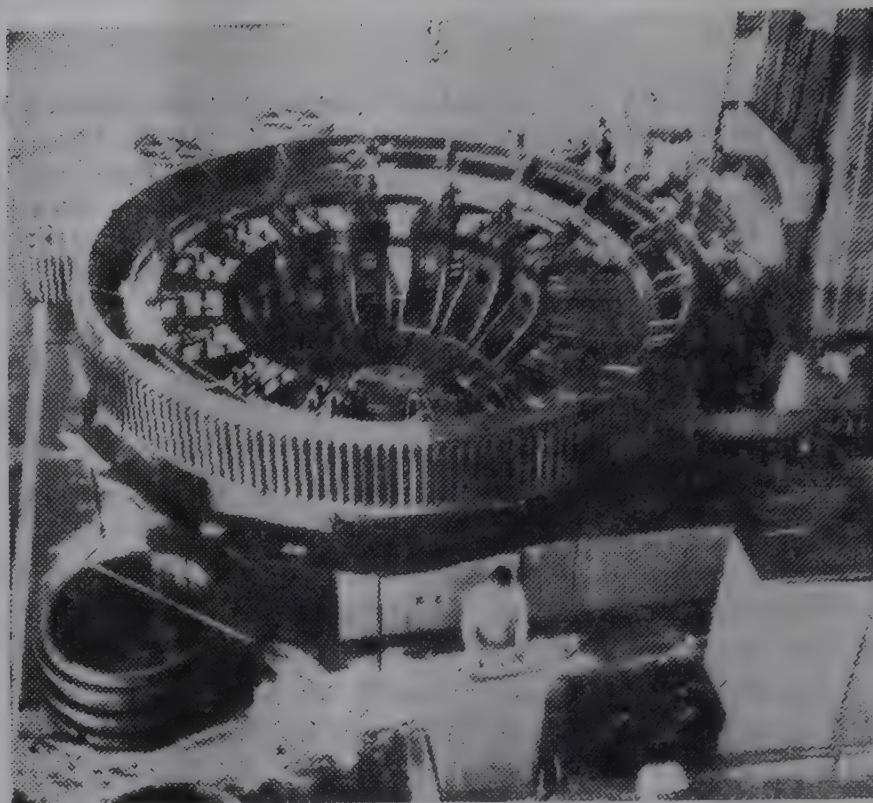
lessee and to that extent the interest of the lessee would stand reduced. When once it is conceded that the unearned increase goes to augment the interest of the lessor and reduce the interest of the lessee it could not be taxed as the wealth of both the lessor and lessee. To put in another way, this unearned increase would be included in the net wealth of the lessor and hence could not at the same time form part of the wealth of the lessee. It must therefore be subtracted from the gross wealth of the assessee. Looked at this way, the correct method of valuing the asset was to take the market value of the leasehold interest as if it were unencumbered or unaffected by the burden or restriction of the covenant and deduct therefrom 50 per cent of the unearned increase in the value of the land representing the value of such burden or restriction.

Yet another consideration was : had the property been sold in the open market, would the whole of the price received belong to the assessee? Obviously not. Under the lease 50 per cent of the unearned increase is diverted to the lessor. In other words what belonged to the assessee would be the price less 50 per cent of the unearned increase. That amount represents the net realisable worth of the asset in the hands of the assessee.

The second and important question was whether 50 per cent of the unearned increase was a mere application of the price received by the assessee after it comes into his hands or a diversion of a part of the price by a paramount title. The tests laid down by the Supreme Court for deciding such a question were : where, by the obligation, income was diverted before it reached the assessee it was deductible; but where the income was required to be applied to discharge an obligation after such income reached the assessee the same consequence would not follow because it was merely an obligation to pay another portion of one's own income which had been received.

In the present case 50 per cent of the unearned increase in the value of the land would be diverted to the lessor before it would reach the assessee's hands. It cannot be regarded as part of the wealth of the assessee.

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Carter plan for growth and jobs with less inflation

V. Balasubramanian

The US presidents' anti-inflationary programme looks to a more freely functioning economy, with management and industry cooperating with the government to promote competition within American industry, encourage productivity, bring down the basic inflation rate, provide more jobs and impart dynamism to public revenues so that budget deficits could be avoided. It also looks to trade policy to help achieve these objectives. This programme has been enunciated in the context of strong recovery trends in consumer spending and, to a less extent, in other components of the GNP which, it is now expected, may be averaging close to an annual rate of seven per cent for the rest of 1977.

of job-fostering programmes by both president and Congress. *Fortune*, however, notes that "the critical area of capital spending has so far failed to give evidence of extra strength". Although production of and new orders for equipment are lately perking up, the Commerce department's survey of business capital plans for the year suggests that dollar outlays in the second half of the year will be up by 11 per cent from 1976, which is considered to be good enough for non-manufacturing lines, but not good enough for manufacturing lines.

towards recovery

The brightest areas of the US economy, currently, are consumer spending and housing starts. New-car sales zoomed in early March and have averaged an 11-million rate since the end of November, 1976. This is 10 per cent ahead of a year ago. Housing starts, if March figures are any guide, may reach a two-million rate by the end of this year, instead of next year as builders expected earlier. Starts in single-family housing, now the strongest part of the market, have returned to their 1972 peak of 2.4 million. This level may be passed this year and exceeded by 150,000 units in 1978.

The big question is whether the economy is in danger of getting over-heated. So long as capital spending remains circumspect and idle capacities exist in industry, which is the situation at present, this possibility is not very serious. The president has asserted that "by any objective measure, the economy has ample room to expand without running into excess demand". At the same time, over the past year, the rate of inflation has averaged six per cent and, according to the chairman of the Council of Economic Advisers, Dr Charles L. Schultze, further price increases could probably be expected in the next few months "that would be above the underlying five to six per cent

THE UNITED States' winter of discontent has in reality been less horrendous than feared. Far from being frozen in its tracks, the American economy moved on to new high ground in March. As a result, real output of US goods and services was higher than expected in the first quarter of this year and twice as high as last quarter's growth, thus signalling an end to the nine-month slowing trend in the growth rate.

According to the figures released by the Commerce department on April 20, GNP,

dollars, while imports rose by 11.1 billion dollars.

In a statement before a congressional committee on April 20, secretary of the Treasury, Mr Michael Blumenthal, said that he expected that federal spending and revenues would provide "an environment conducive to a six per cent growth in real output over 1977", which is the administration's growth target for the year. With the weather subduing the GNP growth rate to 5.2 per cent in the first quarter, the increase for the rest of the year may per-

WINDOW ON THE WORLD

adjusted for inflation running at an annual rate of 5.8 per cent, rose at an annual rate of 5.2 per cent during January-March this year as compared with 2.6 per cent in October-December, 1976. Much of this rise was due to a resurgence in inventory restocking by business. Inventories grew at an annual rate of 75 billion dollars, as against 17 billion dollars in the previous quarter. The GNP is affected by many different components, including consumer spending, business investment and net exports. Both consumer spending and business investment rose for the quarter. Exports, however, declined by 9.1 billion

dollars, while imports rose by 11.1 billion dollars.

The president is reported to be pleased with the evidence of firm economic recovery and to believe that prompt enactment of the administration's public works and public service jobs proposals would ensure the continuation of the recovery in the second half of 1977 and into 1978. Meanwhile, all government purchases of goods and services now promise to rise by six per cent by this year-end over the levels at the close of 1976 thanks to the expansion

rate of inflation". Consumer prices were up by 1.8 per cent in January and February together, while food prices are expected to add more than an extra half of one per cent to this year's overall rise in consumer prices.

These prospects have compelled some recasting of the president's economy strategy. He has quietly abandoned a proposal for a 50-dollar rebate which was the centre-piece of an earlier 30-billion dollar economic stimulus package. This proposal had run into heavy weather in Congress and there were also differing views among the president's advisers themselves about the need for this reflation of purchasing power. Those who were arguing that the tax rebate was unnecessary found support in the ease with which the economy bounced back in February-March, after a period of cold-weather-related weakness in sales and output. Moreover, recent run-ups in sensitive commodity prices, highlighting the steady upward movement of some 15 per cent in the basic commodity price index since last October, also induced second thoughts in the administration. The decision to withdraw the proposal for the rebate, however, was officially linked to the pick-up in consumer spending in March, with some attempt to play down its relevance to the administration's concern over the rising inflation rate.

avowed objective

That concern was more openly displayed in the anti-inflation programme announced on April 15 by the president. Its avowed objective was to reduce the rate of inflation by about two percentage points so that, in the words of Dr Schultze, "the underlying rate of inflation in the United States by the end of 1979 would be in the area of four to four and one-half per cent." In explaining the need for the programme, Mr Carter noted that, in the first three months of 1977, consumer prices had risen by nine per cent on an annual basis and wholesale prices by 10 per cent. The administration's comprehensive programme might contribute still more to inflation, although an attempt would be made to hold any impact to below one-half of one per cent.

Consistent with the anti-inflationary

programme and, indeed as a part of it, the administration, Mr Carter said, would continue to pursue certain economic stimulus measures designed to make the economy grow faster and reduce unemployment. He referred to his proposals for direct job creation and permanent tax reduction for low and middle income tax payers and urged the Congress to enact them. Promising that effective investment incentives would also be a key element of his administration's comprehensive tax reform, the president noted that the rate of expansion of productive capacity should be stepped up to head off possible shortages.

Ruling out wage and price controls, either of an active or standby nature, as "self-defeating", the anti-inflationary programme emphasizes voluntary cooperation on the part of business and labour to hold down wage and price increases, coupled with a package of government measures for restraining fiscal policy, cutting back red tape and unnecessary regulations and seeking the stabilization of commodity prices both at home and abroad.

early warning system

Work would begin immediately on setting up a mechanism whereby business and labour leaders could consult with government officials on achieving economic objectives, such as the control of inflation. The Council on Wage and Price Stability would also play a larger role in monitoring trends that could be potentially inflationary and providing an "early warning system" for emerging bottlenecks, capacity shortages and other problems. The council will pay special attention to basic materials industries.

Giving high priority to better coordination of monetary and fiscal policies, the president indicated a course for fiscal policy which would hopefully achieve the goal of a balanced budget in a normal economy by the fiscal year 1981, while permitting the federal reserve to provide an expansion of money and credit, consistent with moderate interest rates and a steady and non-inflationary growth of employment and output. In this context, Mr Carter pointed out that inadequate tax revenues from a stagnant economy—not legitimate federal spending programmes—

were the principal source of budget deficits. Two steps, he said, were essential to balancing the budget. The first would be a durable expansion in the private economy that would generate steady growth of jobs, incomes and federal tax revenues; and the second the disciplining of the growth of federal spending in the years ahead by prescribing responsible expenditure ceilings. The president declared his commitment to both policies.

regulatory procedures

Promising full consideration of the economic cost of major government regulations, through a more effective analysis of their economic impact, the president proposed to reform rate-setting regulations to increase competition within regulated industries, including a major effort to deregulate the airline industry and other industries in which regulation unnecessarily stifled competition. He referred to his recommendation to Congress to establish an agency for consumer advocacy which could play a useful role by intervening in regulatory procedures on behalf of the consumers who ultimately pay the bill for the protection enjoyed by regulated industries. The potential for such intervention would be strengthened as the Carter administration acts to fulfil its pledge to enforce anti-trust laws strictly and crack down on price-fixing and monopolistic practices.

Expressing concern over food prices which had risen at an annual rate of 19 per cent in the first quarter of the year compared with a fall of one per cent in 1976, the president disclosed that the secretary for Agriculture had developed a programme for an orderly build-up of farmer-held reserves of foodgrains, such as corn and soyabeans, which could be made available to help avoid "wild fluctuations" in food prices. The administration would also enter into negotiations for international agreements for certain farm commodities. Noting that the price of sugar had risen at one stage to about one dollar a pound, Mr Carter said that he would try to pursue an international marketing agreement on grain and sugar while considering with an open mind other commodity agreements that concentrate on moderating price fluctuations.

Saying that trade can play an impor-

at role in the fight against inflation by improving efficiency and maintaining competition within American industry, Mr Carter said that the United States would work for a freer trade system in international negotiations and, more particularly, would push for a successful conclusion of the Tokyo round of trade negotiations. He pointed out that he had rejected excessive tariffs and quota restrictions on shoes and mushrooms, but suggested that the United States should at the same time deve-

lop better means to prevent import competition from severely disrupting domestic industries. Annotating this point, the US ambassador to the UK, Mr Robert S. Strauss, addressing the Trade Policy Centre in London on April 25, said that the concept of "zero-based budgeting", which considered no existing programme indispensable, was being extended in his country in the form of "zero-based thinking about all of our domestic and international affairs". For instance, said Mr

Strauss, in the field of international trade, the United States was seeking a renewal without change of the Multi-Fibre Agreement, not simply because it was expiring at the end of the year, but because "if the MFA did not exist, we would have to invent it" since there had to be an internationally agreed framework within which individual bilateral agreements could be reached for solving the problems of the textile trade.

What is cooking for developing countries?

E. B. Brook

Negotiations on the Multi-Fibre Arrangement (MFA) are of great importance to the pattern of trade relations between the industrialised economies and the developing countries. They are a test of the extent to which the former are prepared to go in shutting off essential export markets to the latter for the purpose of providing protection to jobs in their own high-cost industries. The way the MFA is amended ultimately will be highly relevant to the fortunes of the north-south dialogue.

THIS YEAR is set for some vital and highly contentious debates. The decisions taken on the basis of these discussions should form the pattern of world trade and relations for some time to come. The OPEC nations are to attempt agreement on a price for crude this summer in Stockholm; the north-south dialogue approaches a decisive meeting in Paris; the Multi-Fibre Arrangement (MFA) comes up for renewal. In all these, and particularly in the latter two, the well-being of almost all industrially developing states is bound up.

The Multi-Fibre Arrangement receives less publicity than either oil prices or general commercial/financial relationships between fully industrialised states and the commercially growing states of Asia, Africa and South America. The subject tends to be technical and is, in some senses, a repetition of the threadbare argument about free trade and protection. But it is a good deal more than that, essentially, it is a test case on the tender subject of whether, when industrialised

states find themselves severely undercut in price by nations that can produce and sell more cheaply they can partly shut off their markets to the goods of the cheaper seller, maintain their comparatively high prices and profits on the excuse of preserving industry and employment. Since even the partial shutting off of a valuable export market to those states producing more cheaply means less employment in those states, a protective action, whatever it may be called, is a measure to save industry, profits and employment at home at the expense of those even less able to bear those misfortunes.

This history of the MFA cannot be satisfactorily expressed as baldly as that; its history dates back to the early 1960s. At that time it became apparent that world trade in cotton textiles required special rules, additional to those provided by the GATT agreements. Low cost suppliers often found their access to markets cut by quotas. On the other hand, countries with established textile industries felt

a genuine need to protect their domestic markets against disruption by imports or felt that the burden of accepting textile imports from developing countries was not being equitably shared.

As a result, in 1962 GATT's Long-Term Arrangement (LTA) on trade in cotton textiles, came into being and remained in force by several renewals until December 1973. This arrangement required member countries to eliminate progressively any restrictions on cotton textile trade that were not in accordance with LTA rules. If restrictions regarding textile trade were imposed, they were to provide for annual growth in quotas. But trade in textiles made of fibres other than cotton remained outside the LTA. This fact became a matter of growing concern in the 1960s and in the early 1970s when the quantity of man-made fibre textiles and blends increased rapidly. Intense competition developed between industries in the industrially developed countries and newly established, highly competitive export industries, especially in India and eastern Asia.

As a result the LTA was superseded in 1974 by the General Agreement on Tariffs and Trade's Multi-Fibre Agreement which is due to expire, unless renewed previously, on December 31 next. Meetings with the purpose of discussing terms of its renewal

were held in Geneva in late November and December last year.

The MFA is a multilateral contract to which 41 countries, accounting for over 90 per cent of world trade in textiles, have acceded. The parties include the USA and the European Community (as one body). The MFA requires all participants to bring any restrictions they may have on textile imports into line with MFA rules. That this is necessary after three years illustrates the sluggish unwillingness of some of the signatories. The MFA allows restrictions on textile imports only when a country is experiencing market disruption. Import restrictions may also be imposed either by agreement between the importing and exporting countries or unilaterally. Any annual quotas must not be lower than trade during a specified base period, and if quotas remain in force for more than one year they must be enlarged annually by six per cent.

surveillance body

The MFA also requires more favourable treatment to be given to imports from developing countries, particularly to those which are new entrants to the trade sector in question. The MFA also provides for a textile surveillance body to oversee implementation of the MFA and to help in settlement of disputes.

Up to the present, the United States has been pressing for renewal of the MFA without change, believing that it has operated well, despite severe economic recession in 1974 and 1975. The USA considers the MFA as it exists is the best means of balancing the desires of developing countries for increased access to markets against the protective wishes of European and other countries with established textile industries. This attitude is inclusive of the attitudes of the US administration, its textile industry, cotton interests and the textile workers' unions. They unitedly view MFA as an umbrella under which nations can negotiate and implement agreements.

Other nations with fairly long-established textile industry may with justice comment critically on this north American attitude to the MFA which contrasts with its recent wish—upset by president Carter—to impose import quotas on shoes, of

which 54 per cent of imports reach United States' shores from Taiwan and South Korea. Similarly, US tenderness to MFA over textiles is held to be at variance with its very recent decision to impose import duties on Japanese electronic goods because their makers received tax benefits from the government in Tokyo.

European opposition

West European attitudes to the MFA in general oppose its renewal. The declines in mill consumption of fibres and of cotton cannot be laid entirely to the effects of the MFA or to competition of imports from Asia. The decline must be seen as part of the economic recession following the oil crisis in 1973 and loss of export markets. At the same time and especially in Britain, imports of cotton goods, mostly from India, Pakistan, Hong Kong, the Peoples Republic of China and Taiwan, have for some years exceeded domestic production. At the same time, simple cotton or fibre textile garments are still not cheap in the UK shops though they are usually more expensive on the European mainland. France claims that 40 per cent of cotton goods are now imported but in this case and in that of several other mainland European countries, the high level of imports is explained partly by dumping tactics over cotton fibre products from east Europe. As a result, the west European countries would like to modify the MFA by reducing the six per cent annual rise provision to zero during a period of zero economic growth.

Canada, taking action under article 19 of GATT rather than under the MFA recently limited imports of clothing to the 1975 level of 192.4 million garments as 'a drastic action to avert a crisis situation in its textile and clothing industry'. Earlier, Australia had somewhat similarly taken action to limit textile imports.

The developing countries claim that the MFA is part of a 15-year control system that violates GATT's concept of eliminating trade restrictions. Quotas, they claim, are usually applied in a discriminatory fashion. In general, the situation is complicated by the number of multilateral or bilateral agreements concluded by the European Community with many countries,

The present EEC programme aims at negotiating bilateral agreements with 11 supplying countries and to phase out all pre-MFA restrictions on other countries. Many of the EEC bilateral agreements including that with India, conform with the MFA.

The year-end decision over the MFA may very well be influenced by the current position of the synthetic fibre industry. The industry's rate of expansion has slowed down although it is still growing. It is questionable whether much of the capacity will ever be built since the industry is now deficit-ridden. At the beginning of 1976 only 69 per cent of the capacity was being utilised, compared to 85 per cent two years earlier. Although over capacity in the industry is world-wide, world capacity rose from 9.0 million tons in March 1974 to 10.8 million in March 1976 and a further gain to 12.2 million tons is in prospect for next December.

cotton under pressure

In assessing what should be the attitude to renewing the MFA and whether there should be amendments from any party it is well to realise that, despite all the clamour about exports from Asia it is the United States that produces 33 per cent of all synthetic fibre, that western Europe produces another 30 per cent, and Japan a further 13 per cent. With 76 per cent of all synthetic fibre being produced outside Asia and outside eastern Europe—the world's greatest dumper of this material—the remaining 24 per cent comes from South America (10 per cent) leaving about 14 per cent to be laid to the account of the "flooding from Asian markets". There is also a world textile recession, with cotton prices under heavy pressure from the challenge of polyester fibres.

In general, the problems of overcapacity and of severe competition between producers weigh more heavily for the industry even with opportunities of entry to foreign markets. An agreement between producers to reduce output to reasonably competitive levels would appear to be at least as important as whether the MFA is renewed with or without some carefully argued alterations.

ast week I suggested

at there was medical evidence that the acting president had a spine. Now Mr Jatti's backbone is there for all to see. By offering some resistance to the established convention of rubber-stamp presidents, he has done his bit to restore respectability to the president's oath of office, as now prescribed in the constitution. I wish he had done more, by resigning and sparing himself the pain and humiliation of signing decrees in violation of his constitutional obligations as he saw them. Had he done so, the public would incidentally have been treated to the entertainment of the present chief justice of the Supreme Court, acting as president, duly fulfilling his chores.

The Labour minister has just said that settlements of industrial disputes exacted from managements by *gheraos* or other coercive tactics on the part of workers or trade unions would not be valid. The acting president, however, did not get the benefit of any such protection, for he had to sign the proclamations under duress. Mr Jayaprakash Narayan, on a celebrated occasion, advised the armed forces and the police that they had a duty to refuse to obey orders which were illegal. When the holder of the highest office of state in the land, however, chose to spend some time in satisfying himself about the legality of the documents he was being asked to sign, he was accused of conspiring against the people by ministers in the central government. Worse still, rabbles of slogan-shouters were sent to the acting president's residence to stage demonstrations and work up an atmosphere of intimidation reminiscent of the hysterical situations contrived by Mrs Gandhi's henchmen in the wake of the Allahabad high court judgment.

When the full story of the moves that led to the proclamation of presi-

dent's rule in the nine states where the Congress party was routed in the general election is told, there will be very few reputations left that will stand the telling. For instance, Mr Nani Palkhiwala, I hear, had some doubts about the propriety of bringing UP and Orissa, where the assemblies had yet to complete even a five-year term, into the president's rule net. His constitutional lawyer's conscience reportedly worried him so much that he went to Mr Jayaprakash Narayan, got a message from him for the prime minister and flew to Delhi with it, but did not ultimately deliver it at No 5, Dupleix Road. I readily concede that it would be a national disgrace were Mr Narayan Dutt Tiwari, possibly the most abject sycophant of the Sanjay gang, to remain chief minister for a day longer than was unavoidable. Mr Tiwari, however, had in fact been allowed to remain a chief minister for longer than could have been helped. By merely setting the law in motion many of the guilty men of the emergency could by now have been compelled to answer for their conduct. It is not at all clear why the central government did not choose to pursue this obvious course of action.

It has been suggested

that, however, tainted the 42nd amendment act may be, it has become necessary, in the light of the Jatti episode, to sprinkle holy water on clause (I) of article 74 of the constitution (as amended by that act) and make it part of our political bible. I would go one step further and say that article 60, prescribing the oath or affirmation "every president and every person acting as president or discharging the functions of the president" should make and subscribe before entering upon his office, should also be amended to provide for the oath or affirmation in the following form:

"I, A.B., do swear in the name of god/solemnly affirm that I will faithfully exe-

cute the office of president or discharge the functions of the president of India in strict accordance with all such instructions as, I may receive from time to time from the prime minister's office or from any ministry or department of a ministry of the government of India and in particular, put my signature to any paper, proclamation, order or other document brought to me for the purpose any time during day or night by any functionary of the central government, acting or purporting to act on the orders of any minister, without wanting to read what I am required to sign or taking no more time to append my signature than may reasonably be required for putting pen to paper by one of my years and state of health".

Such an oath may preferably be taken before the Gandhi Samadhi at Rajghat and should naturally be administered by a triumvirate consisting of Mr Jayaprakash Narayan, Acharya Kripalani and Mr Nani Palkhiwala. In my view, this course would make things easy for every one, especially the next president-elect. For only a fool or a knave would hereafter, "make and subscribe" an oath or affirmation as president to "preserve, protect and defend the constitution", even if the fee be free board and lodging in Rashtrapati Bhavan.

The chairman of the

Janata party, Mr Chandra Shekhar, was probably as much a "compromise" candidate as a "consensus" candidate. He commands, however, wide respect among the leaders as well as the rank-and-file of the Janata party for his record as a rebel Congressman during the period when Mrs Gandhi was becoming increasingly authoritarian within the Congress party, while embarking on a plan and policy of promoting a personality cult in the government and the country. This is the capital on which he must build for unifying the twice-born Janata party which he now heads and helping its organisational wing to achieve with the governmental wing a relationship of mutual reliance and dignity which Acharya Kripalani, for instance, considers necessary in the public interest. In this context, how this "Young Turk" gets on with a certain "Old Ottoman" would be worth watching.



MOVING FINGER



Indian Overseas Bank

Directors' Report, 1976

We are happy to report that the year 1976 has been one of phenomenal growth for IOB. Key budgetary goals were fulfilled, and in many sectors, surpassed.

Prime indicators illustrating the progress of the Bank at a glance are:

	1973	1974	1975	1976	Growth 1976 over 1975 (%)
	(Rs. in crores)				
Capital and Reserve funds	2.55	2.89	5.04	7.52	49.2
Deposits and other accounts in India and abroad	209.70	249.26	328.74	469.53	42.8
Advances in India and abroad	137.37	163.67	224.18	327.88	46.3
Deposits in India	183.8	222.5	296.0	408.9	38.1
Advances in India	122.2	149.6	203.9	292.7	43.6
Investments in India	58.26	75.99	95.41	130.51	36.8
Net Profit	0.66	1.11	1.63	3.07	88.3
Number of Branches	387	433	500	576	15.2

Assistance to Priority Sectors:

Lendings to the priority sectors registered a handsome rise of Rs 27.2 crores (or 45%) from Rs 60.2 crores in 1975 to Rs 87.4 crores in 1976. The share of priority credit in gross credit in India stood at 30% as of end 1976. If food credit is excluded, its share would be 36% (against 33% in 1975). As many as 1.5 lac additional lending accounts covering various priority categories were brought into the Bank's fold making a total of 3.42 lac borrowal accounts as of end-1976.

The Bank had build up liaison with State Government departments at the headquarters, district, block and village levels and with other voluntary and social service agencies concerned with the implementation of development programmes. As many as 132 viable schemes covering hitherto neglected sectors such as handloom weavers, basket makers, artisans, landless labourers etc. have been formulated and financed during 1976 in coordination with official and non-official agencies. Where possible, a number of beneficiaries have been induced to form cooperatives. Besides providing technical advice, the Bank has helped to link up production with marketing, participated in promoting adult literacy programmes, sanitation etc.

Agriculture:

Finance for agriculture, both direct and indirect, received a fresh thrust. Outstanding advances rose from Rs 28.5 crores to Rs 39.6 crores and the number of farm borrowal accounts from 1.7 lacs to 2.7 lacs.

Efforts made to cater to the needs of small and marginal farmers are reflected in the preponderance of such borrowers in the Bank's farm credit portfolio. As of end 1976, this group accounted for 80% of agricultural borrowal accounts and 67% of direct farm credit. Two years ago, the proportions were 59% and 44% respectively.

The Bank adopted 130 villages and hamlets during the year. So far 324 villages and hamlets have been adopted. The number of adopted primary credit societies rose from 30 in 1975 to 40 in 1976.

Regional Rural Banks

Puri Gramya Bank, the first regional rural bank sponsored by IOB in February 1976 in the State of Orissa has made good progress in mobilising rural deposits and in extending credit to the weaker sections. As of end-1976, the Bank had established a network of 20 branches spread over Puri district, attracted deposits to the tune of Rs 17 lacs and disbursed credit of the order of Rs 27 lacs—the beneficiaries being small and marginal farmers, agricultural labourers and rural artisans.

A second regional rural bank sponsored by IOB—Pandya Grama Bank first of its kind in Tamil Nadu—came into being on March 9, 1977 with headquarters at Sattur. It will work for the upliftment of the weaker sections in Ramanathapuram and Tirunelveli districts.

Small Scale Industries:

Advances to small scale industries recorded phenomenal growth during 1976—outstanding credit moved up from Rs 21.5 crores to Rs 31.5 crores against an increase of only Rs 3.3 crores in 1975. A large number of cottage industries, apart from new units manufacturing a wide range of products from traditional goods to sophisticated electronic equipments benefited from IOB's credit. The number of small scale industrial accounts increased from 5200 to 12500.

Employment Promotion Programme:

The Bank's involvement under the Employment Promotion Programme witnessed marked progress. An amount of Rs 43 crore was disbursed—more than double the previous year's Rs 43 lacs.

Equally impressive was the progress in extending credit under various schemes designed for the benefit of small transport operators, the self-employed and small traders. Lendings to these classes increased from Rs 10.6 crores to Rs 16.3 crores or by 50%. Over 43,000 persons received credit support during the year, raising the total number of beneficiaries to 64,000.

Lendings under the differential interest rate scheme were substantially stepped up—outstandings rose from Rs 30 lacs to Rs 138 lacs, while the number of beneficiaries rose from 6600 to 30,000. The share of DIR advances in gross credit of the Bank in India improved from 0.20% in 1975 to 0.68% in 1976, exceeding the norm fixed by the Government of India.

Exports:

In tune with the importance accorded for promotion of exports, the Bank's export lendings were stepped up. Total pre-shipment and post-shipment credit outstandings rose by 42% from Rs 16.8 crores to Rs 23.9 crores. Export turnover handled by the Bank in India stood at Rs 166 crores in 1976 against Rs 126 crores in 1975. We have increasingly participated in financing the newer export items—capital goods and other engineering products, chemicals etc.

Branch Expansion:

Seventy five branches were opened in India during the year, as planned, compared to 65 in the preceding year, besides nine extension counters. Three fourths of the new branches came up in rural and semi-urban areas. Presently, roughly 60% of branches function in rural and semi-urban areas as against 43% on the eve of nationalisation. In the rural areas, the bank has progressively endeavoured to cover smaller and smaller centres. Thus, 20 out of 32 rural branches opened in 1976 were in centres having population of 5000 and below—eighteen of these were located in hitherto unbanked areas. Twenty two new branches were set up in the underbanked States of West Bengal, Uttar Pradesh, Orissa, Assam, Bihar, Rajasthan and Meghalaya. IOB's first all women's branch was opened at Basheer Bagh (Hyderabad) early this year. As of end-1976, the Bank had 569 branches and 35 extension counters in India.

Recruitment & Training

To keep pace with the business expansion, the tempo of recruitment was accelerated—1495 in 1976 against 1222 in 1975. New recruits included 98 Probationary Officers, 25 agricultural officers and 21 other specialist cadres, 1081 clerks and 270 sub-staff.

Norms for recruitment of scheduled castes and scheduled tribes were relaxed and the backlog was considerably reduced. Twenty nine officers, 302 clerks and 121 subordinates belonging to these categories were induced into the Bank.

The Staff College and the regional training centres conducted 34 courses benefiting 852 officers against 31 courses and 798 officers in the previous year. Forty six courses were conducted covering 1097 clerks (34 courses and 824 clerks in the preceding year). Emphasis in the training programmes continued to be placed on the specialised aspects of banking. In addition, as many as 231 officers or about 10% of the total officer strength attended courses conducted by outside institutions such as National Institute of Bank Management, Bankers Training College of Reserve Bank of India etc.

Overseas Operations:

The Bank's overseas branches at Hong Kong, Singapore and Colombo acquitted themselves creditably. Their performance in key result areas was substantially better than in preceding year.

Progressive use of Hindi

Hindi Cells set up at the Central Office and at Regional Office, New Delhi were strengthened. Three officers from the Delhi region were deputed for an intensive training course designed for bank officers, organised by the Central Institute of Hindi, Agra. Regular classes were conducted to assist staff members taking correspondence courses run by the Central Hindi Directorate. Cash incentives were paid to over 200 staff members who passed various Hindi examinations.

Board of Directors:

The Board wishes to record its profound sorrow at the demise of two directors, Shri Joseph Chakola and Smt. Prabhamayi Devi. Their mature contribution to the deliberations of the Board will be missed.

The Board also wishes to place on record the appreciation of the valuable guidance extended by Dr P. D. Ojha who ceased to be a Director with effect from January 4, 1977. Shri H. L. Ananu has joined the Board in his place.

Conclusion:

Once again IOB has the proud distinction of leading the banking system both in rate of growth and profitability. This, in no small measure, is due to the untiring efforts of members of the staff of all cadre. The Directors have great pleasure in acknowledging their contribution and look forward to their continued co-operation in fulfilling the various tasks and goals set for attainment in the post nationalisation period.

For and on behalf of the Board of Directors

Madras,
30th March 1977

A. M. KADHIRESAN
Chairman & Managing Director

Balance Sheet as at 31st December 1976

Previous Year Rs.	CAPITAL AND LIABILITIES	31st December 1976 Rs. P.	Previous Year Rs.	PROPERTY AND ASSETS	31st December 1976 Rs. P.
2,00,00,000	1. Capital	4,00,00,000.00	27,67,85,558	1. Cash (including balances with Reserve Bank of India and State Bank of India)	38,44,02,224.99
3,03,93,202	2. Reserve Fund and other Reserves	3,52,21,620.71	4,65,18,107	2. Balances with other Banks	9,17,33,793.85
3,28,74,61,457	3. Deposits and other Accounts	4,69,53,02,164.79	1,60,92,550	3. Money at Call and Short Notice	3,93,54,545.45
26,25,80,890	4. Borrowings from other Banking Companies Agents, etc.	40,56,40,431.78	96,04,14,382	4. Investments	1,32,40,35,972.76
4,61,78,380	5. Bills Payable	4,83,44,583.14	2,24,18,14,863	5. Advances and Bills Purchased and Discounted	3,27,87,95,405.08
23,49,90,508	6. Bills for Collection being Bills Receivable—As per contra:	31,49,22,009.13	23,49,90,508	6. Bills Receivable being Bills for Collection—As per contra	31,49,22,009.13
1,86,62,888	7. Other Liabilities	5,52,76,430.42	19,00,52,222	7. Constituents' Liabilities for Acceptances, Endorsements and other obligations as per Contra	47,87,66,427.38
19,00,52,222	8. Acceptances, Endorsements and other obligations as per contra	47,87,66,427.38	1,33,08,215	8. (a) Premises	2,04,15,181.72
			23,75,469	(b) Building under construction	4,10,897.40
1,62,61,246	9. Profit and Loss Account Profit for the year ended 31-12-76	3,06,75,364.29	2,09,34,741	9. Furniture and Fixtures	2,74,65,082.80
1,00,00,000	Less: Amount transferred to Reserve Fund	2,50,00,000.00			
40,43,145	Provision for contingencies	34,24,685.03	8,89,04,028	10. Other Assets	11,47,82,027.29
5,93,101	Bonus to Staff (for Colombo & Singapore branches only)	6,25,679.25	53,904	11. Non-Banking Assets Acquired in Satisfaction of claims	15,099.50
			Nil	12. Profit and Loss Account	Nil
1,46,36,246		2,90,50,364.28			
16,25,000		16,25,000.00			
4,09,22,44,547	Total:	6,07,50,98,667.35	4,09,22,44,547	Total:	6,07,50,98,667.35

Eradicating poverty in developing countries

- Poverty, Agriculture and Economic Growth:** B.M. Bhatia Vikas Publishing House Pvt, Ltd; Pp 260; Price Rs 50.
- Financial Structure and Economic Development (with special reference to India):** E.S. Srinivasan; Sterling Publishers Pvt Ltd, New Delhi; Pp 170; Price Rs 40.
- Employment Potential of Manufacturing Industries—A Case Study of Uttar Pradesh:** K. Prasad and T.V.S. Ramamohan Rao; Sterling Publishers Private Ltd, New Delhi; Pp 112; Price Rs 35.
- How to Finance Small Business Enterprise:** S.W. Parikh; The Macmillan Company of India Limited; Pp 335; Price Rs 38.
- The Monetary Structure of the Indian Economy:** G.P. Khetan, J.C. Handa and R.R. Waghmare; The Macmillan Company of India Limited; Pp 120; Price Rs 40.
- The Worker and His Union—A Study in South India:** E.A. Ramaswamy, Allied Publishers Private Limited; Pp 204; Price Rs 30.

Reviewed by **Academicus**

IN THE changed context of world food situation and rising agricultural prices, what should be the most appropriate development strategy for developing countries like India? What is the place given to agriculture in our development plans? What are the relative roles of land reforms and technological changes in raising agricultural productivity in the earlier phases of development process? What type of agrarian structure would suit India best? How far are the farm policies in India, particularly farm price policies, suitable for attaining more rapid rates of growth of agricultural output? What is the present position and future plans in regard to the provision of agricultural credit? Are food imports necessary? What purpose do these imports serve? How far does the public distribution system need modifications and reform? How can the food problem of the country be solved?

The above are some of the problems on which B.M. Bhatia wrote in *The Statesman* during the last two years. These articles and some of the papers presented at seminars are now collected together in *Poverty, Agriculture and Economic Growth*.

There appear to be two basic issues facing the world at present, namely the widespread rural poverty in the Third World countries and secondly the securing

of rapid development of these countries which for historical reasons have been left behind in the race of industrialisation and economic development over the last two hundred years or so. While the two issues are interconnected, it should be understood that that does not imply inter-causal relationship. This means that the solution of one may lead to the resolving of the other; but it is also equally possible that it may not do so. On the other hand, it is possible that a massive pro-

BOOKS BRIEFLY

gramme of industrialisation carried out successfully may fail to make any perceptible impact on the rural masses in a vast country like India. This is the lesson which for example India has learnt after the painful experience of the last two decades or so.

From this it follows, according to the author, that the problem of rural poverty has to be attacked at the point where it originates and exists. The remedy lies not so much in industrialisation as in development of agriculture and expansion of productive capacity and employment opportunities in rural areas. This realisation, for example, has led institutions

like the World Bank to reorient their aid policies to developing countries in favour of projects which have a direct bearing on agricultural-cum-rural development.

The author has made it clear that development of agriculture and agricultural productivity, particularly of food-grains, have added significance for developing countries. It should be realised that the world food situation has undergone radical changes in recent years. While stocks with major food exporting countries have touched an all-time low mark of 50 million tonnes which is inadequate to ensure world food security against periodic failures of crops due to one or other reason, the prices of food-grains have shown a steep rise in recent years. Due to these reasons, acquiring food self-sufficiency has therefore become an urgent task for developing countries.

rising unemployment

Secondly, increase in foodgrains production is also important for economic growth. Agricultural development and food surplus in a developing country has become under the changed circumstances a pre-requisite of industrial development. Yet another reason why underdeveloped countries are compelled to pay attention to development of the rural sector is the growing problem of unemployment in these countries. In the post-war years the Third World countries have been witnessing almost unprecedented growth rates of numbers and manpower and this has resulted in mounting level of unemployment. In the foreseeable future, there is no possibility of surplus labour in rural areas being fully absorbed in urban industrial and other occupations. This means that opportunities of gainful employment have got to be created within the rural sector itself until such time that other sectors of the economy grow in size sufficiently to be able to absorb that labour.

According to the author, agricultural

development raises some important issues of both theory and practice. For example, Karl Marx advocated radical changes in the existing relations of production in agriculture before new forces of production comes to be released and productivity levels raised. This implies that radical measures of land reform are thought necessary for initiating growth process in agriculture. But, according to the author, very little empirical evidence is adduced in support of this thesis. On the contrary, experience of both Soviet Union and China points out that even the most radical land reforms may not produce any tangible results so far as increase in agricultural production through raising yield per unit of land and labour.

function of technology

These countries appear to have realised lately that improvement in yields is a function of technology and investment in capital works in agriculture rather than that of production relations. Of course the author has warned that to say that is not to deny the need for land reforms as existence of parasitical elements in the agricultural sector undoubtedly inhibits desire to work, save and invest. But it should be noted that absence of any incentive for hard work and save and invest may produce equally disastrous results as is clear from the experience of the communist countries. Land reforms carried out by Americans in post-war Japan where private ownership of land has been retained corroborates the above view. This empirical evidence should, according to the author, prove of great value to underdeveloped countries in formulating their land reform policies.

While feudal agricultural relations must be transformed, it should be noted that it is not a sufficient condition for agricultural development. Agricultural development in addition calls for state action (i) promoting much higher rate of capital formation in the agricultural sector, (ii) provision of institutional credit to marginal and small farmers, particularly for crop production and purchase of farm machinery and other equipment, and (iii) ensuring continuous flow to the farmer of supplies of essential farm inputs.

The first requires resources on a

magnitude that only state can find. As regards the second, according to the author, the importance of this reform is being increasingly recognised everywhere as is obvious from the emphasis on expansion of cooperation credit, opening of regional rural banks and rapid expansion of branches of nationalised commercial banks in rural areas. Finally there is urgent need for an agency to carry the results of research in laboratories at agricultural universities to the farmer and give a feedback from the latter about the village problems faced in practice to the research workers. While the community development programme might not have produced happy results, it only emphasises the need to strengthen the extension services in a manner that the past mistakes are avoided.

The author has emphasised that the farmer must be protected against violent fluctuations of prices and incomes, while at the same time protecting the interests of consumers. This calls for a well-knit and long-range farm price policy. Price controls and public distribution measures are not enough; the farmer must be assured of receiving remunerative prices for his produce.

After undue emphasis on industrialisation for about two decades, agriculture seems to have come into its own in developing countries. The author has also well emphasised the possibilities of drawing wrong inferences from western experience in matters of economic development. In spite of a certain amount of repetition which is inevitable in books of this type, the articles show great insight into agricultural and rural problems of India and are extremely readable combining as they do scholarship with journalistic flavour.

FINANCIAL STRUCTURE

E.S. Srinivasan has made an attempt in his *Financial Structure and Economic Development (with special reference to India)* to find answers to three basic questions concerning financial structure and economic development. First, were there structural changes in the financial system in the context of economic development? Second, if there were changes, how were the different aspects of financial

structure—financial assets, institutions and markets—affected by these structural changes? Third, how best can these changes be analysed and explained? The scope of this analysis is restricted to the period 1951-52 and 1965-66 because of its special relevance to India.

It would be instructive to carefully note the major findings of the author with reference to the above three questions.

According to the author, there were structural changes, both quantitative and qualitative, in the Indian financial system during the period 1951-66 in the context of planned economic development. The structural changes were significant in the banking sector among the financial sectors and in the household and government sectors among the non-financial sectors.

real assets

The author found that though real asset still formed a significant portion of the total (real and financial) assets in the economy, the size of financial assets in relation to national income and real assets increased significantly during the period of study. One reason for this state of affairs has been the notable increase in loans and advances which accounted for this relative growth of financial assets.

According to the author, the financial sector as a whole showed marked improvement in its issue and absorption of financial assets in the economy. Among the sectors that have contributed to this increase, the government sector and the household sector are the most important.

In the Indian financial market, both the supply of resources and the demand for resources increased significantly over the period. On the demand side two chronic deficit sectors were the government and the private corporate sector. On the supply side, the financial and the household sectors were prominent although the financial sector itself drew heavily from the household sector. On the whole, according to the author, the demand pattern is more variable than the supply pattern of funds in the Indian economy over the period of study. These changes in the financial market suggest,

part from the growth of financial resources in the economy, the increased flexibility of the Indian financial market.

With the growth of domestic markets and domestic market-oriented large-scale production at home, the need for greater inter-sectoral flows of money and financial assets at home increases and this in turn increases the demand for certain special types of domestic financial institutions such as long-term trade credit. The growth of other non-banking financial institutions may not be noticeable until the desire to provide for risk is recognised. This will happen when money ceases to be 'a luxury good' providing security against unforeseen contingencies.

The author finds it difficult at this stage to link these findings with economic theory. Only a tentative explanation has been offered by the author. The pioneering role which the government plays in transition in developing countries like India and the initial slackness in the private financial system that the government sector plays a crucial role in making the financial system reap the economies of scale. Financial specialisation is made possible leading to innovations in financial assets, institutions and markets. These naturally result in the extension of financial services which reduce the (per unit) exchange costs on the one hand and help diversify the financial risks (of default) on the other.

significant analysis

Flow-of-funds analysis has assumed great significance in recent years. For developing countries such as India with a mixed type of economy, this sort of analysis is of very great significance. The rate of saving has practically trebled since 1951. Where does that saving originate? In what sectors and in what proportions? Which are the lagging sectors? Where do these funds go? In what form? Why? Wanting to develop the economy in a planned way with definite targets the funds will have to be appropriately diverted in adequate quantities and at right time, if different sectoral targets are to be attained.

Against this background, the analysis flow-of-funds in this book appears rather superficial and inadequate especially because it covers the period 1951-66. The

broad sectors could have been further sub-divided and flow-of-funds analysed in greater detail. The effort though inadequate is praiseworthy and will have to be pursued in greater depth by scholars in the monetary field.

EMPLOYMENT PROBLEM

In recent years the question of employment has rightly been receiving considerable attention from scholars and government policy-makers. There are however some key aspects of employment problem the knowledge of which is still limited. *The Employment Potential of Manufacturing Industries—A Case Study of Uttar Pradesh*, written jointly by K. Prasad and T.V.S. Ramamohan Rao, develops a methodology for identifying specific technology and products having maximum employment potential, indicates the factors that should be taken into account and applies them to the engineering units in Uttar Pradesh. The approach of the authors is based on the assumption that geographical disparities in resources endowment suggest a richer variety of choice of products and this is likely to develop more employment opportunities. This is a novel approach and is certainly thought-provoking.

The authors rightly feel that in academic circles "a disproportionately large amount of effort is spent in defining the concept of unemployment." It is rightly stressed that "measurement of unemployment is not the ultimate purpose of the analysis and marginal social return in such an endeavour cannot be commensurate with the costs involved." The problem of unemployment in India is colossal at all levels of skills, in all regions and in all sectors of the economy, whatever the definition of unemployment we may choose to have. The problem has become all the more elusive today than what it was some twenty years ago.

Going straight into the heart of the matter, authors emphasise that there is little scope for reducing unemployment in the short-run by concentrating on policies calculated to control supply of labour. Naturally therefore, emphasis should be on stimulating demand for labour by creation of employment so that it can grow more rapidly than the supply of

labour. Any effort to stimulate demand for labour ought to keep in mind the structure of labour force in India. Indian labour is mostly rural, mostly unskilled lacking managerial and innovative skills, and with lower level of productivity, it being sometimes lower than even the low level of wages.

From this it follows that any analysis of employment problem should keep three aspects in perspective: (a) there is need to provide jobs for semi-skilled and unskilled people during at least next 10-15 years; (b) workers should be given a decent real wage so as to make employment worthwhile; and (c) the efficiency of use of scarce physical and financial resources should be maximised i.e. the methods of generating employment ought to minimise the cost of creating a job and at the same time be sufficiently productive to contribute adequately to Gross National Product.

macro approach

The authors have made it clear that the classical, the neo-classical and the Keynesian approaches to the problem of employment being essentially macro approaches which do not take into account all the above factors into consideration will not be much helpful in solving the complicated problem of unemployment in a backward country such as India. On the basis of the analysis of empirical studies so far made on unemployment in India, the authors have arrived at the important finding that when it comes to the question of fully explaining the various factors responsible for employment creation and choice of policy instruments to maximise employment, "There is no alternative to a detailed empirical analysis at the regional level and for as many products as possible."

According to the authors, more important than the question of techniques of production and controversy over small-scale and large-scale production, is the problem of appropriate selection of product-mix which should form an important strategy of employment generation in the context of the integrated development of backward areas. What is necessary is that a proper mix of different types of industries based on regional resource endowment so as to provide a viable regional economic

development should be selected. Similarly a carefully planned effort towards product selection for providing maximum employment potential should be directed towards minimising the social cost of providing employment in terms of capital outlay and the reduction in the growth rate of income.

Taking all these factors into account, according to the authors, the important determinants of employment potential are: availability of raw materials in the vicinity, demand for the product particularly in the vicinity and anticipation of demand over short-run, profitability, stock of machines, growth in such assets and anticipated expansion, percentage of product made to specification, and linkage effects.

Any generalisation on creation of employment at macro economic level being impossible and the empirical material collected so far being, according to the authors, spotty and inconclusive, the authors have taken for study employment situation in Uttar Pradesh, especially with reference to engineering units.

institutional mechanism

The authors found that institutional mechanism in Uttar Pradesh is inextricably tied up with bottlenecks of various types—raw materials, utilities, working capital and so on. It was also found that relative to a given product-mix, choice of techniques exhausts itself earlier than is necessary to generate all the employment that is desired. There is however, sufficient flexibility in the choice of products which are suited to the endowment of resources of a given region.

Analysing the functioning of 73 light engineering units, the authors found that raw material availability from the neighbourhood plays a significant role in making production and employment possible in both large and small units. It was found that working capital requirements in small units are much larger than in large units. Large units almost universally complained of shortages of raw materials while working capital shortage aggravated the problems of small units. It was found that large units employed smaller number of temporary hands. Products of large units faced highly variable demand with

the consequence that inventory fluctuations were high. It was found that most of the light engineering units provide good opportunities for absorbing semi-skilled and unskilled workers. On the basis of the critical survey, the authors have concluded that guidelines for successful generation of employment are—choose products, which (a) use raw material from the vicinity, (b) cater to local markets predominantly, and (c) adopt the best practicable technology but have relatively small size to suit the above two conditions.

The authors have made significant contribution to the solution to the problem of unemployment. They have clearly brought out the limitations of a generalised theory of employment whether of the classical type or of the Keynesian type, especially for a country like India with vast regional disparities and abundance of semi-skilled and unskilled workers and various other bottlenecks. They have therefore rightly emphasised that the problem has to be approached from regional angle basing product-mix on the type and quantity of available raw materials and nature of demand in the region. If the problem of unemployment is to be successfully tackled, similar project studies will have to be undertaken regionwise and in place of any generalised policy or as a supplement to it, regional and sub-regional measures will have to be taken. This alone will help to solve the growing problem of unemployment in India which is becoming more and more elusive with the passage of time.

SMALL BUSINESS

In recent years significant developments have taken place in the field of small business enterprises. It has been realised that the first two decades of planned economic development left the bottom 50 per cent of the people practically untouched or only with marginal gains out of the country's economic progress. It is now being increasingly realised that small business enterprises are ideally suited to India to solve the problem of mass poverty and ensure a decent living to this vast neglected section of the population.

There are available vast resources in different regions and there is also adequate skill and entrepreneurial ability with the

people needed for small business enterprises. However the main constraint happens to be finance i.e. capital both fixed and working and it is on this aspect that S.M. Parikh who is working with Dena Bank and has the requisite experience in this field has concentrated his attention.

The merit of *How to Finance Small Business Enterprises* lies in this that instead of confining himself to narrow groove in which a technical expert generally moves, the author has written the book both for a generalist and a specialist.

prominent role

For example, discussing the significance of small business enterprises, the author having described the prominent role which they play at present even in advanced countries such as the USA, the UK and Japan, has shown how for India they offer high employment opportunities, help maximise the use of local resources, help balanced regional development, decentralisation of industries and of economic power, capital formation and help develop further entrepreneurial skills at different growth centres. The government having realised the importance of small business enterprise has reserved 100 per cent production in the case of 30 industries and bulk of production in 54 industries (both the lists being given in the book).

The author has explained in detail the concept of small business enterprises (as interpreted by Thakkar Committee) and the institutional set-up for the development of small business enterprises in India. He has listed more than 20 institutions which are established since independence to assist small business enterprises—some well-known and some not so well-known. The persons concerned will find a lot of material here regarding financial and other assistance they can expect from these institutions.

The author has rightly devoted a separate chapter to the role of banks in the development of small business enterprises. Commercial banks are in a position to play a vital role in this field because they are the largest repositories of financial resources, have a network of branches spread throughout the country, have the

services of financial and technical experts at their disposal, and can afford the cost of developmental effort in this enterprising field.

A new relationship is being established between the commercial banks and small business enterprises in India. The commercial banker will have to take note of the special characteristics of small business enterprises. Some of these characteristics are: a small business enterprise is generally a 'one-man show'; the small borrower is a production-man or marketing-man; business finance and personal finance are not separate in his case; small borrowers do not maintain suitable books of accounts and other records; and his main problems are financial. Naturally financing of small business enterprises has created some special problems such as close and personal knowledge of the borrower, delegation of powers to branch managers with suitable internal checks, high establishment costs because of the present methods of banking and the attitudinal changes necessary in bank personnel for rendering assistance to small business enterprises. The last one is the biggest hurdle because it is very difficult to break the traditions and attitudes built over more than a century.

lending criteria

While judging the creditworthiness of small business enterprises, the bankers will have to take four factors into account—character, capacity, capital and adaptability of the unit in question. The author has explained in detail what all details the banker must take into consideration under each heading. The method, the author feels confident, would enable the banker to spot out the right man deserving credit. The banker should decide whether or not to finance a small unit also taking into consideration factors such as prospects of generation of employment, utilisation of local resources, local needs and alternative sources of meeting those needs, and whether the borrower has full stake in his business. Writing about appraisal of a new project, the author has provided the following guidelines—whether the promoter is technically competent in manufacturing the proposed product; whether the requisite factory premises, plant and

machinery, tools and equipment are available within a reasonable time and cost, and if the promoter has made the necessary arrangements for acquiring them; and whether the proposed unit is supported by the required infrastructural facilities. The author has explained all these in detail with all the necessary technicalities.

The banker concerned with providing finance to small business enterprises will find the specialised knowledge contained in chapters on analysis of financial statements, assessment of credit requirements, classification of advances, legal side of advances, documentation, post-sanction control and supervision and recovery of advances extremely instructive.

This is a comprehensive book written for both generalists and specialists. While specialists may feel happy to find answers to some specific problems, they may feel disappointed to find a topic like discounted cash flow completely omitted, while a personnel man may find an important topic like interview inadequately dealt with, whereas a legal expert in a bank may find topics like mortgages, co-signer vis-à-vis guarantor not discussed at all, while a prospective entrepreneur may complain the absence of detailed information on steps to be taken in promoting a new industrial unit. It must however be understood that the book is not meant to enable specialists to understand their subjects but to help them appreciate various aspects of small business enterprises. This comprehensive book will certainly be of great assistance to those whose job it is to raise and disburse finance to small business enterprises.

MOBILISING RESOURCES

The Monetary Structure of the Indian Economy is supposed to present a detailed study of the monetary sector of the Indian economy.

The authors have begun by reviewing the present structure of the money market and the evolutionary trends in the history of banking. Financial institutions can play an important role in efficient mobilisation of capital. The authors are of the opinion that India has a long way to go in achieving the objectives of full mobilisation and efficient utilisation of capital. Too much of saving especially in the agricultural

sector is still held idle or is loaned without reference to overall market for capital. Banking sector's contribution has therefore been less than what is needed. The authors have opined that its contribution to the gradual monetisation of the hitherto non-monetised sector of the Indian economy is "questionable if the contribution of the real and political factors were to be excluded."

remarkable achievement

Indian banking has definitely grown and strengthened during the last two decades in respect of the number of branches, particularly in rural areas and in providing a range of services necessary for modernising agriculture. These achievements seem quite remarkable if the Indian banking system is considered in isolation and the time-series data is used to compare its own growth rate over time. But the authors are of the opinion that from the point of view of the Indian economy which needs to develop faster, the Indian banking system does not seem to have overcome some of the major handicaps and was making only slow headway especially prior to nationalisation in its task of mobilisation of resources. The authors have emphasised that much of the progress in the Indian banking system is due to the progress of the economy and has not come from within the sector itself.

It is also felt that the organised banking sector in India is too much oriented towards meeting financial requirements of the government and of the large-scale industries. Its interest rate structure needs to be made more realistic while the excess liquidity due to past deficit financing needs at the same time to be mopped up. It is rightly felt that the present high degree of liquidity has led to a virtual loss of monetary control over the Indian economy by the Reserve Bank. Government's continual budgetary deficits, lack of large market for government securities in the private sector and the Reserve Bank's commitment to an orderly market in government securities all mean that the power to adjust the money supply in the economy is delegated to commercial banks. Liquidity with the people thus comes to be determined by factors on which the Reserve Bank appears to have

title control. This results in weakening of the control by the Reserve Bank over the economy.

As regards a quarterly econometric model which appears as part of the title of the book, the authors after complex calculations have arrived at the extremely commonplace observation that "the seasonal variations in most of monetary variables can be traced back, directly or indirectly, to seasonal variations in agricultural income and output."

The students of monetary economics will find the book disappointing. Most of the things said are commonplace and what is more distressing, the things have not been well said. Arguments lack rigorous analysis and one often begins to wonder where one is being led. Craze to use econometric models to prove what is clear to the naked eye or to the commonsense must be curbed, if economic analysis is not to get lost in technical jargon forgetting its ultimate objective.

GRASSROOTS UNIONISM

Trade unionism in India is generally studied at the macro-level and broad conclusions are arrived at. E.A. Ramaswamy, the author of *The Worker and His Union—A Study in South India* thinks that Indian labour studies are "parrot-like description of all that is considered evil in trade unions." The political affiliation of the unions, multiple unionism, and outside leadership are bemoaned in every study. The author feels that this preoccupation has made the scholars myopic to the realities of the situation. The author has rightly stressed that "Humble down-to-earth empiricism is the need of the hour in Indian labour studies." The author has taken for his study the Coimbatore District Textile Workers' Union (TWU). His aim is to study "grassroots unionism", instead of indulging in vague and meaningless generalisations about trade union movement in the country.

The TWU, affiliated to the Hind Mazdoor Sabha (HMS) at the national level, is one of the four unions organising the blue-collar workers employed in some 80 textile mills in the district of Coimbatore. The choice of Coimbatore for the author's study was influenced by the

existence of large textile industry there and the tradition of militant unionism in the industry since the late thirties. The TWU has been the dominant union since its establishment in 1937, with its peak membership of 23,000 in 1947. The TWU has been the prime target of employer's hostility and it has been in conflict with other unions of which National Textile Workers' Union (NWU) has been prominent.

democratic functioning

The author has made an attempt to understand the internal environment of the TWU. The well-attended meetings, crowded union office, massive rallies all seem to be the proof of democratic functioning of the TWU and the conviction of the members that the union is theirs and they must have a say in its affairs. The TWU exists primarily to take care of the members' interests in the workplace and this is also where much of the action originates, because the members have a vital interest in pay-package, bonus, workload, physical facilities and their work-relationship. The workers typically view the management as being desirous of evading its responsibilities in these matters, above all over the question of bonus. The author found that members are deeply concerned with the inter-union equation. Different unions compete for the loyalty of the same work-force and no union including TWU was seen to be generally cooperating with other unions except in its own interest. The competition for support inevitably leads to active conflict among unions and the interests of workers were seen to suffer as a consequence.

The author found that often inter-union conflicts in Coimbatore cannot be traced to economic interests at all. Slighting references to union leaders, attempts to block meetings, etc. are important sources of conflict. It was found by the author that the initial logic that the rivals should be contained in order to further common interests of workers tends to recede into the background and containing rival unions becomes an independent objective.

The author found that political affiliation of trade unions also plays an impor-

tant role. For example, if the TWU is not to be swamped by competing unions with similar overt claims, it must set itself apart from the rest of them. Thus political affiliation helps to give the TWU its unique identity by providing it with a core of stable supporters who constitute its bulwark. Loyalty to the PSP or at least to some kind of leftist ideology happens to be an important driving force in the TWU. The author feels that the "attenuation of this force will inevitably sap the vitality of the Union."

The author is of the opinion that industrial relations in Coimbatore would certainly be less complicated but for the existence of multiple unions which affords a chance for employers to play one union against another. But for this union rivalry, the author feels that many disputes would not arise at all and those which do could be settled more easily. Also, the political cleavages among unions lend a further edge to the conflict among them. Particularly relevant here is the fact that the partisans in the different unions clash periodically during elections to state and central legislatures.

high point

The author found that job interest cannot draw the members to the union on a continuous basis and the most obvious high point of union activity is around October-November every year when the bonus issue dominates the scene. Membership interest in industrial disputes is also high just before and immediately after the conclusion of wage and workload agreements.

A dominant question in Indian labour studies relates to the pattern of leadership. The control of unions by outside leaders has evoked unequivocal condemnation. But the author on the basis of his study does not agree with this view. The labour leader is not a free agent and whether he is outsider or insider has to be responsive to the demands and wishes of workers. The author found some outside leaders quite honest and hard-working and some inside leaders corrupt and inefficient. He found that egalitarian political culture, low bureaucratisation and high rank and file involvement in the union activities constrain the leaders whether outsiders or

insiders to be responsive. "Given appropriate conditions insiders and outsiders may turn out to be just as corrupt."

The author also feels that much is made of illiteracy and ignorance of workers. Surely, illiteracy does not prevent a person from knowing what is in his interest. The Coimbatore workers are illiterate and yet pursue their interests with determination.

Also the general assumption has been that the workers are believed to be unable to take over effective full-time leadership because they have no formal education. But the author found that some of the most accomplished trade union leaders in Coimbatore have barely finished middle school.

political links

The political involvement of trade union is another question which has evoked strong reactions. But the author is of the opinion that at a time when rank-and-file apathy is the most serious problem faced by trade unions everywhere, a force which can bring workers closer to their union cannot be dismissed as divisive. "It is utopian to demand that trade unions should dissociate from political parties when almost every mass-based organisation is developing strong political links." Also, the notion that between the trade union and political party, it is the latter which plays the big brother has come to be uncritically accepted. The relationship between the two could very well depend upon the size and strength of the union and the party and whether the party in question is in power or in opposition.

A number of corollaries follow from this study by E.A. Ramaswamy. The study shows the severe limitations of macro-studies in a country like India. This is becoming obvious not only in the field of trade unionism but also in several other fields. The emphasis should therefore now shift to micro-studies in various fields. Secondly, one must not hurry to draw general inferences even from this study. Because outside leadership, politicisation and illiteracy are no obstacles in the case of trade union movement in Coimbatore, it does not follow that they may not prove to be serious impediments elsewhere, nor does it necessarily follow

that greater literacy, internal leadership and eschewing of politics will not strengthen trade unionism in the country. Each case with its special environment will have to provide its own lessons. And thirdly, if the above two things are granted, formulation of any general policy in

most of the fields poses serious problems. Such policies are likely to prove ineffective and even harmful. Policies will have to be formulated on the basis of a fine combination of macro and micro studies in most of the fields in a country like India.

Reserve Bank of India : staff occasional papers

Beginning with 1976, the Reserve Bank of India has been bringing out Staff Occasional Papers twice a year, i.e., June and December. This series is an outlet for the technical studies of the staff of the Economics and Statistics Departments of the Bank. We reproduce here the gist of the three studies forming the December 1976 issue.

The annual subscription is Rs 16 in India and \$2.50 for abroad, the price of a single copy being Rs 8 and \$1.50 respectively. Copies to be had from The Administrative Officer, Economic Department, Reserve Bank of India, Post Box No 1036, Bombay-400 001.

FINANCIAL SYSTEM

Flow-of-Funds Accounts: A study prepared by V.V. Divatia and T.R. Venkatachalam (of the department of Statistics).

There has been a distinct growth and diversification of financial system in terms of institutions and instruments since the second Plan, new issues (incremental) of financial institutions steadily rising from an annual average of Rs 118 crores or 1.3 per cent of national income in the first Plan period to about Rs 197 crores or roughly 5.8 per cent of national income during the years 1969-70 to 1971-72. The rise was particularly marked during the second Plan, from 1.3 to 3.4 per cent. This was due to a host of promotional and other measures initiated by the Reserve Bank and the government—nationalisation and reorganisation of the then Imperial Bank of India (State Bank of India) in 1956, greater vigilance over the working of other banks, stress laid on cooperative credit, progressive extension of the EPF Act to cover many more new industrial establishments and so on. The rising trend continued in the later periods (albeit at a slower pace).

This phenomenon can be attributed to the recognition given to term lending initially and development banking later and the emerging class of smaller investors from the viewpoint of industrial development through the establishment of IDBI and UTI in 1964, closely followed by ARDC.

The increasing resort to indirect financing via financial institutions is reflected in the rising intermediation ratio. Reliance on credit (or external finance) for investment purposes as revealed by the new issue ratio also went up from 0.51 in the first Plan to 0.66 in the third Plan, but the subsequent years it remained at about 0.64. The incremental financial inter-relations ratio (i.e. the ratio of total borrowing to total physical assets formation) rose from 0.63 in the first Plan to about 1.06 during the period 1969-70 to 1971-72. In other words, for every rupee of investment in physical assets, investors issued (or created) financial claims worth 63 paise during the first Plan years, whereas lately they created claims worth Rs 1.06. This is a pointer to the growing complexity of the financial system which inevitably accompanied modernisation and growth.

Government saving has risen in absolute terms but has not kept pace with the steadily rising level of its investment. In fact, saving as a proportion to investment fluctuated alternately and declined from 43 per cent in the first Plan to 30 per cent during the years 1969-70 to 1971-72. In meeting these widening deficits, the government has resorted to borrowing from both domestic and foreign sectors. The foreign sector has emerged as the most important lender eclipsing domestic sectors like banks, other financial institutions and households which are net lenders to government. However, since the third Plan it has reached a plateau of about 50 per cent of the government financial defi-

its (i.e. financial sources minus financial uses) and has steeply declined thereafter to 24 per cent, reflecting, among others, the stress laid on self-reliance in planning.

In the private corporate sector, there has been a steady fall in the proportion of self-financing of investment from 44 per cent in the first Plan to 16 per cent during the annual Plan period (1966-67 to 1968-69). The decline is attributable to recessionary trends in the industry during these three years. Since then the proportion of self-financed investment has risen to 31 per cent, reflecting partly the shift from excessive reliance on external finance particularly from commercial banks in the wake of the measures initiated such as social control and credit planning.

In the household sector, direct investment is found to be over 50 per cent of own savings, the balance being lent to

others in the form of financial assets. Net direct lending by households in the form of securities to corporate sector drastically fell from 30 per cent during 1951-55 to a small net disinvestment of securities during 1969-70 to 1971-72. There is a falling trend in the share of net loans and advances. The declining share indicates that borrowings of households from banks and other financial institutions have increased at a faster rate. The falling share of lending to government reflects the rising quantum of the flow of financial assistance from government to households, besides disinvestment by households in marketable government securities.

BREAKTHROUGH

Agricultural Production in India : Trends and Prospects: A study prepared by Mr

R.V. Rao and Mr A. Seshan (of the Economic department).

Extension of irrigation and a breakthrough in developing high-yielding varieties for many crops will be crucial elements in attaining satisfactory levels of growth in agricultural productivity as well as production in the remaining years of the fifth Plan period. Besides, development of suitable high-yielding technology for dry farming areas and greater involvement of small farmers in agricultural production programmes are also potential sources of future growth.

Over the period 1949-50 to 1973-74, the annual compound rate of growth was 2.5 per cent for foodgrains production, 1.4 per cent for productivity and 0.9 per cent for area under cultivation. Cropwise, the growth rate of production was one per cent or less for jowar and pulses, between one and 2.5 per cent for groundnut, oilseeds, jute, tea and tobacco and 2.5 per cent or more for rice, bajra, maize, wheat, foodgrains, sugarcane cotton and coffee.

Indicators of Financial Development in Indian Economy—Flows During the Plan Period

(Amount in crores of Rs)

	First Plan	Second Plan	Third Plan	1966-67 to 1968-69	1969-70 to 1971-72
1. Issues of financial institutions (indirect) to non-financial sectors	590 (1.3)	2,003 (3.4)	3,838 (4.7)	3,628 (4.5)	5,916 (5.8)
2. Issues of non-financial sectors	1,792 (3.8)	4,822 (8.2)	8,227 (9.5)	7,485 (9.3)	9,381 (9.1)
3. Issues of rest of the world	—178 (—0.4)	—542 (—0.9)	74 (+0.2)	12 (—)	261 (0.2)
4. Total (F) (1 to 3)	2,204 (4.7)	6,283 (10.7)	12,139 (14.1)	11,125 (31.8)	15,558 (15.1)
5. Net physical assets formation (K.M.Y.) (at current prices)	3,489 (7.4)	7,428 (12.7)	12,378 (14.3)	11,903 (14.7)	14,700 (14.4)
6. Financial inter-relations ratio FIR (Ratio of 4 to 5)	0.63	0.85	0.98	0.93	1.06
7. Investment financed by financial institutions (ratio of 1 to 5)	0.17	0.27	0.31	0.30	0.40
8. Intermediation ratio (ratio of 1 to 2)	0.33	0.42	0.47	0.48	0.63
9. New issue ratio (ratio of 2 to 5)	0.51	0.65	0.66	0.63	0.64
10. Ratio of foreign (rest of the world) financing (ratio of 3 to 4)	—0.08	—0.09	0.01	—	0.02

Note : Figures in brackets represent percentage to national income

main objective

One of the main objectives of the fourth Plan in the agricultural sector was to create conditions necessary for a sustained increase of about five per cent per annum over the succeeding decade. A base level production of 98 million tonnes of foodgrains was assumed for 1968-69 and the target was fixed at 129 million tonnes for the terminal year of the Plan, thus implying an annual growth rate of 5.6 per cent. However, the base and terminal year production of foodgrains turned out to be 94 million tonnes and 104 million tonnes, respectively, and the annual compound growth rate was 2.1 per cent.

The growth rate of foodgrains was thus less than half of the projected rate. Besides adverse seasonal conditions, a number of factors like susceptibility of the hitherto successful high-yielding varieties of wheat to diseases, technical difficulties in the development of suitable high-yielding varieties for many crops in different agro-climatic zones and inadequate use of chemical fertilisers, pesticides and power for irrigation were responsible for the shortfall in achievement.

Growth rates have been compiled for a number of crops in respect of area,

yield and production using different sets of base and terminal years. The occurrence of both highest and the lowest growth rate of foodgrains production in the post-HYVP sets of periods indicates the extent to which these rates are sensitive to changes in climatic conditions. It is also a pointer to the loss of momentum of the so-called Green Revolution.

The HYFP has been an important element in accelerating growth of productivity, as well as production, of wheat and to some extent of paddy. In the absence of irrigational facilities, most of the crops have shown fluctuations in growth rates due to the influence of seasonal conditions. The productivity of crops such as jute and tobacco, which are important from the export point of view, has been more or less stagnant. Jowar, the staple food for the disadvantaged sections of the population in many parts of the country, has recorded a fall in productivity in recent years. With the exception of wheat and coffee, the long-term growth of productivity of the remaining crops can also hardly be considered satisfactory.

The lower levels of achievement in pro-

duction of some agricultural commodities at the end of the fourth Plan means base levels which are lower than what were originally envisaged for the fifth Plan targets. Consequently, the growth rates required to achieve the physical targets of production in the terminal year of the fifth Plan have to be much higher than what were originally planned for jowar, maize, pulses, oilseeds and cotton. High growth rates, particularly in respect of crops like jowar, cotton and oilseeds, were not realised in the best of circumstances in the past. Hence the scaling down of targets in the final fifth Plan seems to be appropriate. The absolute fall in fertiliser consumption in 1974-75 should in this context be noted. Though in the subsequent year there has been some improvement, trends in fertiliser use need to be constantly monitored if production targets are to be achieved.

A NEW APPROACH

The Debt-Equity Ratio: A study prepared by Mr T.K. Velayudham (division of Monetary Economics, Economic department).

The various developments in the econo-

my in recent years such as rise in project costs, capital intensity of projects, state of the capital market, the evolving nature of corporate proprietorship, erosion in the value of real savings and decline in the flow of risk capital have changed the context in which the debt-equity norm was originally fixed. A standard equity norm for all industrial units irrespective of their size and nature and their capacity to raise funds in the new issues market is neither desirable nor practicable. The objective of debt-equity ratio should be to supplement risk capital in a somewhat liberal manner so that capital formation and rapid industrialisation are facilitated. This objective may be achieved not by relaxing or modifying the present norm but by evolving a new approach.

The new approach would indicate different debt-equity ratios for different industry-groups, based on the type of technology generally used, the quantum of capital normally required and the gestation lag. These industry-group norms could be suitably relaxed in the case of individual units within the industry group to take into account the availability or otherwise of risk capital, relative backwardness of the region where the unit is to operate, nature of demand for the product, whether, promoters are technocrats and other relevant circumstances.

The overall debt-equity ratio for the 16 industry groups covering 1,650 companies included in the study of joint-stock companies by the Reserve Bank is well below one, being 0.4:1 for the period 1970-71 to 1974-75. Leaving out the industry groups with ratios well above the overall average, namely, shipping (1:1), electricity generation and supply (0.6:1), paper (0.4:1), cement (0.5:1), industrial chemicals (0.6:1), transport equipment (0.5:1), cotton textiles (0.5:1) and aluminium (0.4:1), all the industry groups have ratios well below the overall average.

Although the financial institutions have been operating the present norm in a flexible manner, a relatively more liberal approach could be taken as regards the role of debt, in view of the need to step up investment to facilitate rapid industrialisation. This is particularly important in a situation where flow of risk capital is not adequate. The current foreign ex-

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**Percentage Share of Debt and Equity in Total Capital Base in
Respect of Selected Industries**

(Average for 1970-71 to 1974-75)

Industry	Debt	Equity
Edible vegetable and hydrogenated oils	17.9	82.1
Sugar	19.6	80.4
Cotton textiles	35.1	64.9
Jute textiles	19.4	80.6
Silk and rayon textiles	17.3	82.7
Woollen textiles	19.2	80.8
Iron and steel	16.2	83.8
Aluminium	28.3	71.7
Other non-ferrous metals (basis)	22.9	77.1
Engineering	26.3	73.7
Cement	30.9	69.1
Rubber and rubber products	25.5	74.5
Paper and paper products	29.4	70.6
Glass and glassware	18.2	81.8
Chemicals	29.2	70.8
Electricity generation and supply	35.9	64.1
Shipping	51.8	48.8
Total (including others)	26.8	73.2

change situation seems to provide the right opportunity, as a liberal debt-equity ratio may make available matching rupee re-

sources for utilising the substantial foreign exchange reserves.

The implications of a liberal debt-equity

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Manager

ratio should not, however, be lost sight of. The more important of these is whether the Indian corporate sector can absorb debt without risking their financial viability. An analysis of the trends in debt-equity ratio, as also trends in average cost of debt and profitability rates, suggests that there is scope for increasing the proportion of debt in the capital structure of companies.

Books Received

Problems of Working Capital with Reference to Selected Public Undertakings in India: Ram Kumar Mishra; Somaiya Publications Pvt. Ltd; Pp. 304; Price Rs. 50.00.

Development Planning: V.S. Mahajan; Minerva Associates (Publications) Pvt. Ltd., 7-B, Lake Place, Calcutta-700 029; Pp. 122; Price Rs 30.

International Labour Standards—A Handbook: N. Vaidyanathan; Minerva Associates (Publications) Pvt. Ltd; Pp. 281; Price Rs 40.

Institution—Building in Education and Research from Stagnation to Self Renewal: Edited by Ravi Matthai, Udai Pareek and T.V. Rao; All India Management Association, Flat Nos. 51-53, Deepak Building, Nehru Place, New Delhi-110 024; Pp. 174; Price Rs 45.00.

Undemocratic Elements in the Indian Constitution: Ram Gopal; Somaiya Publications Pvt. Ltd; Pp. 367; Price Rs 75.

Minerals Economics: R.K. Sinha and N.L. Sharma; Oxford & IBH Publishing Co., 66, Janpath, New Delhi-110-001; Pp. 368; Price Rs 15.

Narottam Morarjee, Architect of Modern Indian Shipping: Edited by N. G. Jog; Published by Publicity and Public Relations; The Scindia Steam Navigation Company Ltd., Scindia House, Narottam Morarjee Marg, Bombay-400 038; Pp. 153.

United Commercial Bank



Head Office
10, Biplabi Trailokya Maharaj Sarani
(Brabourne Road) Calcutta-700 001

STATEMENT OF POSITION

31st December, 1975

Rs.

2,80,00,000
7,00,00,000
623,17,06,058
28,45,62,817
8,75,07,313
53,47,04,178
14,08,46,282
57,00,98,566

50,46,932

795,24,72,146

65,94,16,114
6,70,82,000

174,68,26,548

417,66,27,513

53,47,04,178

57,00,98,566

3,21,91,780

4,51,30,174

12,03,95,273

795,24,72,146

328

204

168

124

824

9

833

64.56

LIABILITIES

Capital : Paid-up
Reserve Fund
Deposits
Due to Banks and Correspondents
Bills Payable
Bills for Collection
Branch Adjustments etc.
Acceptances for Customers

PROFIT AND LOSS ACCOUNT :

2,05,46,932 Profit for the year 2,09,76,348

Less : Transfer to

55,00,000 Reserve Fund 50,00,000

Provision for

— contingencies 62,00,000

— Provision for gratuity 47,17,000

1,00,00,000 Investment Reserve —

Balance to be transferred to Central Govt.

ASSETS

Cash in hand and with Banks
Money at Call and Short Notice
Investments in Govt. and other
Securities, Shares, Debentures etc.
Loans, Advances and Bills
Purchased and Discounted
Bills for Collection
Constituents Liability on Acceptances
Premises
Furniture and Fixtures
Other Assets etc.

31st December, 1976

Rs.

5,00,00,000
6,00,00,000
788,32,19,813
52,25,38,750
8,84,44,003
57,70,44,586
9,08,59,846
57,25,26,125

50,59,348

984,96,92,471

104,93,82,277

9,03,00,000

196,72,25,253

534,33,26,196

57,70,44,586

57,25,26,125

3,58,43,613

5,26,85,156

16,13,59,265

984,96,92,471

NUMBER OF BRANCHES

In India : Rural
Semi-Urban
Urban
Metropolitan

Outside India :

TOTAL

Percentage of Rural & Semi-Urban branches to
Total number of branches in India

377

220

184

131

912

9

921

65.46

TRADE WINDS

Export Duty on Coffee

THE EXPORT duty on coffee has been raised from Rs 1,300 per quintal to Rs 2,200 per quintal with immediate effect. The increase has been effected in view of the steep increase in international prices of coffee in recent months. The revision is expected to result in additional export revenue of Rs 54 crore in a full year on the basis of an estimated 60,000 tonnes of exports in 1977-78. The export duty had been raised from Rs 300 to Rs 1,300 per quintal in November 1976 to mop up windfall profits with the boom in international coffee prices. Against a little over Rs 4.5 crore realised in 1975-76, export duty from coffee was estimated to yield Rs 30 crore in 1976-77 and the interim budget for 1977-78 had assumed Rs 70 crore.

Export Awards

The union minister of Commerce, Civil Supplies and Co-operation, Mr Mohan Dharia presented awards for export performance for 1975-76 instituted by the Engineering Export Promotion Council. The rotating shield for highest all-India export performance in the large and medium-scale sectors was presented to the Projects and Equipment Corporation, a subsidiary of STC. The rotating shield for all-India export performance in the small-scale sector went to Mangala Engineering Works of Bombay.

The regional shields for ex-

port performance were presented to TEXMACO, Calcutta, R. S. Iron Industries, Calcutta, Bharat Heavy Electricals, New Delhi, Kajeco Industries, Agra, Motor Industries, Bangalore, Rajan Trading Company, Madras, Tata Exports, Bombay and Hamilton Industries, Bombay.

Certificates of Merit

Besides, certificates for export performance were given to 39 firms. These were: Arkay Wires, Audco India, B.C. Iron Foundry, Bajaj Auto, Bush India, Chaliha Rolling Mills, Cossul and Co, Easun Engineering Co, Gwalior Rayon and Silk Manufacturing Co, Hindustan Everest Tools, HMT International, Indian Aluminium Cables, Integral Coach Factory, Indo Java and Co, Janak Manufacturing Works, Johnston Pumps, Katia Steel Rolling Works, Khem Chand Vijay Kumar Metal Industries, Mackinnon Mackenzie, Mittal Alloys and Steels, Multiweld Wire Co., Mysore, Electroplating Ltd, New Bharat Engineering Works, Patel Engineering Co, Rattan Rollers, Raunaq International, Rex Trading Co, Rookmann's Private Ltd, Standard Wire Products, Swastik Engineers, Tekma Machinery Manufacturing Co, Tiger Products, Tipson Cycle Industries, Trading Engineers (International), United Engineering (Eastern) Corporation, United Oil Mill Machinery and Spares, Victor Tools Corporation, V.D. Swami

and Co, and Wazir Chand & Sons of Moradabad.

Consultancy Team to West Asia

The Federation of Indian Export Organisations (FIEO) had sponsored a 4-member team of consultants to Oman, the UAE, Saudi Arabia, Iraq and Kuwait. The team led by Dr N.P. Agarwalla, manager of business development, Engineers India Limited, spent about 26 days in this region. The other members of the team are Mr O.P. Gupta, president, Desein (New Delhi) Pvt. Ltd, Capt K.C. Saigal, chairman and adviser, Eastern Bulk Services, New Delhi and Mr D.R. Kalra, deputy secretary, FIEO.

The delegation was able to establish a large number of contacts and project to them the present status and capabilities of Indian consulting organisations. The delegation had discussions with various procurement agencies, buying agencies, governmental as well as private, in each of these countries about their programmes and their consequential requirements of consulting services. The team also explored the possibilities of collaborating with local consultants who are already operating in these countries. A well connected and influential local partner would be a great help in getting business in the countries visited. There is a concern in the countries, visited by the delegation, about the inflated bids which the consultants from industrialised countries are making for various projects and, therefore, the time is opportune for Indian consultants to cash in.

The Sultanate of Oman is dependant on oil revenues as the principal source of income.

The Omanis have shown interest in a refinery of one million tonnes capacity. They are also interested for a cement plant and a copper smelter. With our engineering costs being competitive and economic in the world market, Indian-consultants stand a very good chance. Dubai is thriving as a leading port and an entrepot for other Gulf states. At present, there is a dry dock project, for super tankers, under construction which when completed would be the largest in the world. Dubai Electricity Company have recently placed an order for five units for electricity generation with a Japanese company at a cost of 1,000 million dirhams. They are in need of manpower for running and maintaining these stations. They are looking towards India for assistance in this sector. An oil refinery, a petrochemical complex, LPG plant and ammonia and urea Plant are expected to be set up in Abu Dhabi. They are looking for consultants for evaluating as well as for the implementation of these projects.

Planned Investment

In Saudi Arabia, two big industrial complexes are being planned to be set up in Jubail and Yanbu—one in the east and the other in the west. The total anticipated investment for the two complexes would reach a staggering figure of US\$ 150 billion by 1985. The development in Iraq is being so planned so as to develop it as an industrial base. Super highway is being planned connecting Baghdad with Basra. Plans are also afoot to make the river, connecting Baghdad and Basra, navigable throughout the year. Also on the cards is the expansion of Basra port. A tyre factory

has recently been set up in Iraq but it is not in operation due to lack of trained and skilled manpower. Shuaiba industrial area which is situated 50 kms to the south of Kuwait city, is the main scene of industrial activity in Kuwait.

A Petrochemical Complex and an Aromatics Complex are being planned to be set up there and these would be operational some time after 1985. The team also explored the possibilities of collaborating with local consultants already operating in the region. One of the delegates was able to evince interest from a local consultant in Saudi Arabia for a joint venture project and a contract to that effect has duly been signed, subject to the approval of the respective governments.

Exports to France

The Trade Development Authority (TDA) has published recently a country bulletin in France in its market information service which is likely to be useful for exports of India's trade with France and imports from France both have increased over the last few years. The total trade turnover which was just Rs 39 crores in 1970-71 rose to Rs 269 crores in 1975-76.

The Indo-French Committee set up in January 1976, during the visit of the French prime minister, Mr Chirac to India, has been trying to encourage mutual trade. The bilateral trade and future prospects, Indo-French industrial cooperation in specific sectors and Indo-French cooperation for joint ventures in third countries have featured in the discussions between the two sides so far.

The TDA study has tried to throw light on items which can be exported to France: Radio and Sound Equipment:

France depends heavily on import to satisfy demand for radio, tape recorders, record players and Hi-Fi equipments. Portable radios constitute bulk of the demand for radios and Singapore is the major supplier for these claiming 60 per cent of the total import of radios in France. Electronic Components: Nearly 28 to 30 per cent of the French requirements of semi-conductors and transistors etc. are being imported and the import of these items show an upward trend. French market buys only high performance components.

Domestic appliances: Import constitute quite a significant portion of the requirement of domestic appliances in France. This is particularly so in respect of washing machines, refrigerators, deep freezers, electric heaters, irons and vacuum cleaners. Dry cell batteries: Import of dry cell batteries in France account for on an average, just over 10 per cent of total consumption. Some 30 per cent of these imports are being supplied by Belgium and another 20 per cent by West Germany, USA and Japan are the other two major suppliers.

Increasing Trend

Floor covering, carpets and textile furnishings: Import of these have followed an increasing trend which is, however, firm only in respect of tufted velours carpetings. A significant portion of home consumption of carpets and vinyl floor coverings is met through imports. Furniture: The value of import of wooden furniture has been increasing significantly in recent years. Clothings: About one third of men's and boys shirts, underwear and nightwear and 45 per cent to 50 per cent knitwear and hosiery consumption in France are being met through imports.

Footwear: About one-third of total requirement of footwear in France is met through imports which has also a growing trend. In 1975 alone the increase was about 16 per cent. Sports and leisure footwear with leather uppers has shown a consistent increasing trend. Italy is the principal supplier with Spain and West Germany as the two other leading suppliers. Handtools: In 1974, France imported handtools worth \$ 185 million which showed an increase of 23.7 per cent over the previous year. Countries of European Common Market are the main suppliers accounting for about 55 per cent of the total imports of handtools in France.

Market for Furniture in Norway

Trade Development Authority (TDA) has planned a series of intensive surveys in its target markets with the assistance of the International Trade Centre (ITC) and the Swedish International Development Authority (SIDA). A recent report of the TDA contains the findings of the market survey on furniture in Norway conducted during September-October, 1975.

At present components of furniture may find a market but not the furniture in CKD form because of some inherent difficulties such as heavy freight and old designs of furniture. To establish in the Norwegian market the Indian manufacturer-exporter must establish close contacts with those big manufacturers of furniture who are keenly interested in finding sub-contractors for manufacturing furniture. The details of such manufacturers are given in the buyer's profile section of the report.

The designs of Indian furni-

ture are quite old. It was revealed that a combination of oriental and modern designs in furniture may find a market in Norway. Some of the parties also showed interest for carved furniture from Kashmir and upholstered furniture. The design of Indian furniture may not be an obstacle for export since most of the Norwegian parties will give their own models to be manufactured in India. During the discussion it was also revealed that the furniture made of rose wood, oak wood, walnut is common preferred than teak wood which is out of fashion.

The participation in the specialised furniture fairs would be useful for Indian manufacturers. Most of the buyers visit trade fairs such as International Furniture Fair, Cologne, Federal Republic of Germany; International Fair of Furniture Exhibition, Paris and other exhibitions which are held in Sweden and Denmark. Some importers would be interested to see typical Indian designs when visiting these exhibitions. Some of the parties mentioned that during the visit to Danish Furniture Exhibitions they saw the Indian furniture which was on display. They also contacted some of the Indian participants but the Indian parties did not respond favourably.

FICCI for Price Stability

The Federation of India Chambers of Commerce and Industry (FICCI) has asked the chambers of commerce in various states to set up vigilance committees in cooperation with the government departments to hold the rise in prices in the country. Addressing a new conference recently, Mr. B. Poddar the incoming pres-

of FICCI, stated that the primary aim of these committees would be to help foresee possible situations and take anticipatory measures to check rise in prices.

He pointed out that while the only constructive way to prevent any price rise in the country was by expansion of production base which should be expeditiously undertaken, other supporting measures were also called for. The Federation, as a part of the two pronged strategy to check price rise, was in touch with the various commodity associations concerned with cement, vanaspati, edible oils, sugar and tea and ways were being explored to ensure regular supplies and distribution to keep a check on unhealthy practices such as hoarding.

Mr Poddar stated that in the last one year the prices had risen by 12 per cent but the rise was restricted to only a few major commodities such as cotton, oilseeds, tea and drugs. This was mainly due to a shortfall in the production of agro-based commodities. While maintaining that the increase in money supply had little to do with the rise in prices, Mr Poddar said "money supply must be adequate to lubricate the economy. Any rigid control on money and credit can create friction and suppress growth."

Fertilizer Task Force

The union ministry of Agriculture and Irrigation has set up a fourteen-member task force to ensure efficient implementation of the intensive fertilizer promotion campaign launched for the next kharif and rabi seasons.

The task force consists of senior officials of the agriculture and irrigation departments and

also has on it representatives from the Fertilizer Corporation of India, the Fertiliser Association of India, the IFFCO and the NCDC (National Cooperative Development Corporation).

The group will ensure that adequate number of fertilizer outlets are opened in each of the districts selected for the campaign. It will also see that the required quantities of fertilizers are stocked at the outlets, sort out movement problems, look into credit arrangements and timely availability of seeds, pesticides and weedicides and strengthen extension and farm information and soil testing facilities. Another task of the group is the ensuring of the utilization to the maximum of the available irrigation potential.

The group will meet once a month to review the implementation of the programme and take necessary action regarding bottlenecks. The centre has also suggested that similar groups should be set up at the state level consisting of senior state government officials.

The intensive fertilizer promotion campaign was launched in May last year in 58 selected districts in order to boost agricultural production. This year, 66 districts have been selected in 17 states, namely Andhra Pradesh, Assam, Bihar, Gujarat, Himachal Pradesh, Haryana, Jammu and Kashmir, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

Bangla Tea Export Duty

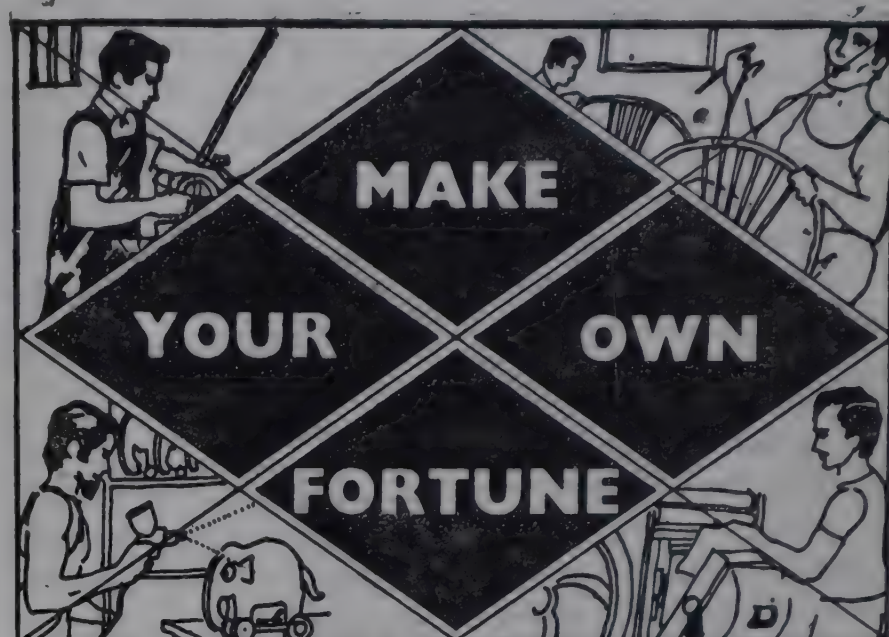
Bangladesh has imposed export duty on tea at the rate of taka one per kg, according

to recent reports. Simultaneously, in a bid to make tea cheaper for internal consumption, it has abolished the excise which was taka one per kg.

Names in the News

Mr Balkrishna Binani, Managing Director, Rashtriya Metal Industries Ltd has

been elected President of the Bombay Metal Exchange Ltd for the the year 1977-78. At 26, he is the youngest ever president of this chamber of metal trade and industry in India. Mr Jagmohandas Gokaldas Shah and Mr Dulerai Ratilal Mehta have been elected vice-presidents.



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PRATIBHA 768 B

COMPANY AFFAIRS

Union Carbide

UNION CARBIDE India Ltd, a multi-product organisation with manufacturing activities ranging from chemicals to shrimp, from plastics to metals from the well-known EVEREADY group of products to agricultural products has maintained its forward thrust in every sphere of its operations during the year ended December 25, 1976. Sales during the year pierced the Rs 100-crore barrier, hitting a new peak of Rs 104.4 crores. All products groups, particularly battery products and shrimp exports, have contributed to this record performance.

High Exports

Exports attained an all-time high of Rs 4.91 crores, and it outstripped by the previous year's fine performance by about 162 per cent. Export of shrimps at Rs 2.9 crores more than doubled the 1975 figure and this was by and large due to the addition of seven shrimp boats, which were gradually phased-in and continuing high prices for these products in the Japanese and US markets.

The company has made considerable progress to increase the efficiency and effectiveness of its products and processes through scientific research and development programmes. To facilitate its activities, it has set up sophisticated and well equipped specialised research centres at Bhopal and Calcutta. The electro-chemical research laboratory at Calcutta has al-

ready succeeded in developing an improved battery during the year and the product has been well-received by the market.

All the units of the company have maintained production at satisfactory levels during the year except the polyethylene and electrolytic manganese dioxide plants in Bombay which were affected by power cuts.

The company has seen impressive progress in the implementation of its expansion programmes. During 1976, the company acquired seven indigenously built shrimp boats. Five commenced operations during 1976 and the other two started operating early this year. It is expected that 1977 shrimp business should be double the 1976 performance. Construction work on MIC based pesticides for agriculture has made good progress and the first phase of the project is scheduled to be completed in the third quarter of 1977. Letter of intent for expansion of polyethylene to 20,000 tonnes is expected to be converted into an industrial licence in early 1977. Fresh proposals have been submitted to the government for dilution of foreign equity in the company.

The net profit, after taxation, at Rs 5.2 crores was a shade higher than Rs 4.9 crores in 1975. The directors have recommended a dividend of Rs 1.60 per share absorbing Rs 2.95 crores.

Philips India

Philips India has reported remarkable improvements in its working results during the year

ended December 31, 1976, sales, profits and exports all being significantly higher than in 1975. While sales jumped to Rs 720.8 mn from Rs 592.0 mn, gross profit before tax but after charging for depreciation and interest short up to Rs 68.5 mn from Rs 51.1 mn. in 1975. The profit after providing for taxation amounted to Rs 25.0 mn as compared to Rs 15.1 mn in 1975.

Exports during the year went up by 36 per cent to Rs 43.1 mn and it outstripped the previous year's performance by Rs 11.5 mn. It is significant to note that the spectacular increase in exports has been achieved despite stiff competition and price cutting in the international markets.

Sales registered an improvement of 21.8 per cent over 1975. Gross profit as a percentage of sales moved up to 9.5 per cent for 1976 from 8.6 per cent for 1975. The handsome rise in profits is mainly due to higher production and substantial rise in sales which were achieved with a marginal increase in expenses. The interest cost during the year was also lower at Rs 19.2 mn, Rs 1.0 million less than in 1975.

Dividends

The directors have proposed a final dividend of Rs 0.70 per equity share for 1976 amounting to Rs 9.5 mn, which together with the interim dividend of Rs 0.50 per share declared in October 1976, will make to gross distribution of Rs. 1.20 per equity share amounting to Rs 16.3 mn. The gross distribution for 1975 was Rs 0.95 per equity share.

With a view to bringing the paid-up share capital in line with the capital employed in the business, the directors propose an issue of 3,880,000

shares of Rs 10 each as fully paid up bonus shares in the ratio of 2 shares for every 7 shares, out of the share premium account and general reserve, subject to the statutory approvals.

The Reserve Bank of India has granted the company's application for carrying on business under Section 29 of the Foreign Exchange Regulation Act. In compliance with the Reserve Bank of India's requirements, N.V. Philips Gloeilampenfabrieken have agreed to dilute their shareholding to 40 per cent. The annual general meeting to approve the accounts and the proposed dividend will be held on June 16, 1977. The register of members will be closed from June 3, 1977 to June 16, 1977, both days inclusive.

Indian Overseas Bank

For Indian Overseas Bank the year 1976 was one of phenomenal growth and spectacular achievements. It is gratifying to note that the bank has fulfilled its key budgetary goals in all sectors and in many cases they were even surpassed. Deposits and other accounts in India and abroad went up by 42.8 per cent to Rs 469.53 crores from Rs 328.74 crores while advances improved by 46.3 per cent from Rs 224.18 crores to Rs 327.88 crores. Deposits of the bank in India expanded by 38 per cent from Rs 296.0 crores to Rs 408.9 crores while advances moved up by 43.6 per cent from Rs 203.9 crores to Rs 292 crores. Lendings to priority sectors recorded a handsome rise of Rs 27.2 crores or 45 per cent from Rs. 60.2 crores in 1975 to Rs 87.4 crores in 1976. The share of priority credit in gross credit in India stood at 30 per cent at the end of 1976. If foreign credit is excluded its share would be 36 per cent as against

per cent in 1975. As many 1,50,000 additional lending accounts covering various priority categories were brought to the bank's fold making a total of about 3,42,000 borrowal accounts at the end of 1976.

The bank has also made commendable progress in financing agriculture, small scale industries, small business, generation of employment opportunities etc. Lendings under differential interest rate scheme were also substantially stepped up.

In tune with the importance accorded for promotion of exports, the bank's export lendings were stepped up. Total pre-shipment and post-shipment credit outstandings rose by 42 per cent from Rs 16.8 crores to Rs 23.9 crores. Export turnover handled by the Bank in India stood at Rs 166 crores in 1976 against Rs 126 crores in 1975. The bank has increasingly participated in financing the newer export items such as capital goods and other engineering products, chemicals etc.

Branch Expansion

As many as 75 branches were opened in India during the year as planned as compared to 65 in the preceding year, besides nine extension counters. Three-fourths of the new branches came up in rural and semi-urban areas. Presently about 60 per cent of branches function in rural and semi-urban areas as against 43 per cent on the eve of nationalisation, IOB's first all women's branch was opened at Basheer Bagh in Hyderabad early this year. At the end of 1976 the bank had 569 branches and 35 extension counters in India.

Its two regional banks, Puri Gramya Bank in the state of Orissa and Pandyan Grama

Bank, in Tamil Nadu are making fine progress.

The overseas branches of the Bank at Hong Kong, Singapore and Colombo acquitted themselves creditably during the year under review.

The bank's net profit recorded a sharp rise to Rs. 3.07 crores from Rs 1.63 crores, registering an impressive increase of 88.3 per cent over 1975.

The IOB thus once again can claim the proud privilege and rare distinction of leading the banking system both in the rate of growth and profitability.

Goodyear

The board of directors of Goodyear India Limited propose to recommend for declaration at the forthcoming annual general meeting a dividend of Rs 1.00 per equity share subject to deduction of tax for the year ended December 31, 1976. The board further resolved that bonus shares in the proportion of two for five shares held be issued to those member whose names shall appear in the register of members on June 24, 1977, the date scheduled for the abovesaid annual general meeting, after the payment of dividend aforesaid, if approved at the meeting. It being understood that the bonus shares so issued will not be entitled to the dividend in terms of resolution passed at the annual general meeting held on June 28, 1976, and as approved by the Controller of Capital Issues.

Warner Hindustan

The year 1976 was a memorable year for Warner-Hindustan Ltd. as its sales crossed the Rs 10-crore mark for the first time. The company's sales of pharmaceuticals substantially increased. Confectionery sales

were lower than last year. The basic chemical business was still passing through a critical period. In fact, the production of chemicals was lower than 1975 due to continued availability of imported Beta and Gama Picolines in the open market at lower prices. The total export sales of the company have grown by nine per cent over the previous year.

Pre-tax profits of the company have been higher than in 1975. Better inventory management, good improvement in receivables position, lower interest costs, together with a vigorous drive for cost reduction have enabled the company to achieve significantly good results.

The company's liquidity has further improved. The company placed Rs 22 lakhs in short term fixed deposit after completely liquidating the short term borrowings. This significant achievement was made possible due to the various steps taken during the year to bring about reduction in working capital.

The company had always been in the forefront in the discharge of its social responsibilities.

Import Substitution

The company contributed substantially to the saving in foreign exchange by its successful implementation of import substitution programmes by giving technical know-how to local manufacturers, besides increased earning of foreign exchange. The company also encouraged the growth of small scale industries in and around Hyderabad for supply of raw materials and other ancillaries.

To bring the issued, subscribed and paid-up capital in line with the actual capital employed, the board of directors have proposed a bonus issue of four equity shares for every five held,

subject to the approval of the Controller of Capital Issues and also the Reserve Bank of India in regard to the allotment and issue of these bonus shares to non-resident members.

The trend of sales and profits of the company during the first four months of the current year continued to be favourable and barring unforeseen circumstances the company expects to report far more encouraging results during 1977.

Cadbury-Fry (India)

Cadbury-Fry (India) Pvt Ltd is entering the capital market with an issue of 8,50,000 equity shares of Rs 10 each at a premium of Re 1 per share to the public. The issue is expected shortly. Cadbury was incorporated in 1948 and is a wholly-owned subsidiary of Cadbury Schweppes Overseas Ltd, UK, and has been carrying on the business of manufacture, sale and distribution of cocoa based and other products including food, drinks, drinking chocolate, chocolates, malt products, etc. The company has factories at Thana and Induri in Pune district. The company's growth record has been good and profits satisfactory.

Cadbury is diluting its UK shareholdings to 60 per cent in the first stage as permitted by the the Controller of Capital Issues. The company has also received permission to issue bonus shares to the existing shareholders in the proportion of 10.5:1 out of the free reserves. The public issue which will follow the bonus issue will be for a total of 9,93,677 equity shares of Rs 10 per share at a premium of Re 1 per share out of which 1,43,677 equity shares will be issued to directors, friends

and employees and the balance 8,50,000 shares to the general public.

The principal object of the issue is to meet the requirements of the Foreign Exchange Regulation Act, 1973, by reducing the present 100 per cent non-resident shareholding of equity shares in the capital of the company to 60 per cent.

As a result of this issue and the additional borrowings that it is negotiating, the company will, use the funds thus generated, to finance certain projects, including an export-oriented project for the manufacture of a cocoa butter substitute, and additional working capital needs of the company. The issue of an industrial licence for this project is awaited.

News and Notes

The **Indian Shareholder**, a quarterly journal of the Madras Shareholders' Association*, provides the readers with materials which are interesting as well as informative.

In the article "The capital market impasse", Mr Narayanaswamy draws the attention of the readers to the morbid state of the capital market and also analyses the causes that have contributed to it. He has appealed to the Finance minister to revive the capital market by providing incentives in the next budget. In the article "Sick Textile Mills: (Nationalisation) Plight of shareholders", Mr S.M.B. Easwaran feels there is a strong case for a re-examination of the relevant provisions of the Act and pleads for an upward revision of the amount fixed as com-

pensation. The other articles, "Revival of Capital Market" by Mr Puskarni Ghudawala, "Recent Amendments to the Central Sales Tax Act, 1956" by Mr K. J. Chandran, "Towards more investment" by Mr N. Mahalingam and "T. V. in the cause of shareholders" by Mr C. Harikrishnan are equally thought provoking. A comprehensive and an incisive analysis of the performance and prospects of Andhra Sugars Ltd, and Madras Rubber Factory Ltd, are given in the last section which is devoted exclusively to the "Review of Companies."

New Issues

Reed Relays and Electronics India Limited, promoted by Mr M. N. Mani, an electronic and telecommunication engineer, has set up a plant at Oggium Thoraipakkam Madras, with a licensed capacity of 3 million Reed switches per annum. The cost of the project is Rs 125 lakhs, financed by loans/deposits to the extent of Rs 80 lakhs and a share capital of Rs 45 lakhs. The Industrial Credit & Investment Corporation of India Limited, Tamilnadu Industrial & Investment Corporation Ltd, and State Bank of India have participated in the term loans.

The Reed switch manufacturing facility set up in technical collaboration with M/s Flight Refuelling Limited, one of the foremost Reed switch manufacturers in UK, incorporates latest design concept in Reed switch manufacturing.

Apart from the above, the company has also established coining facility and heat treatment and electronic switch testing facility to evaluate the final product.

The company has already established a separate research and development department which will work in close association with R & E department, in the UK. Both companies will freely exchange informations for product improvement, production equipment and applications.

Trial production commenced in the third week of March 1977. Commercial production is scheduled to start in the second week of April 1977. The company has received enquiries for one million Reed switches from local users. The company has already received

enquiries from leading electronic companies in France, West Germany, Switzerland and England, for these Reed switches amounting to 2 million pieces. The company is committed to the government of India to export 30 per cent of its production annually.

To raise part of the resources required for the implementation of the project the company is offering to the public for subscription 2,40,000 equity share of Rs 10 each and 50,000 (11 per cent cumulative redeemable preference) shares of Rs 10 each, both for cash at par.

Dividend

		(per cent)		
Name of the company	Year ended	Equity dividend declared for		
		Current year	Previous year	
Higher Dividend				
Maharashtra Sugar Mills	Sept. 30, 1976	6.0	3.0	
Hind Development Corporation	Dec. 31, 1975	10.0	7.0	
Premier Construction Co.	Dec. 31, 1976	13.0	10.0	
Lucky Valley	Dec. 31, 1976	17.5	9.0	
Tungabhadra Industries	Sept. 30, 1976	15.0	10.0	
Same Dividend				
Alembic Chemical Works	Dec. 31, 1976	12.0	12.0	
Alembic Glass Industries	Dec. 31, 1976	10.0	10.0	
Widia India	Dec. 31, 1976	12.0	12.0	
Beco Engineering	Dec. 31, 1976	6.0	6.0	
United Carbon	Dec. 31, 1976	12.0	12.0	
Sree Meenakshi Mills	June. 30, 1976	Nil	Nil	
Bajaj Tempo	Sept. 30, 1976	10.0	10.0	
Reduced Dividend				
Didwana Industrial Corporation	Dec. 31, 1976	6.0	10.0	

*Registered office : 322/323, Linghi Chetty Street, Madras-60001.

Import policy for 1977-78

RECORDS AND STATISTICS

The first major economic policy pronouncement of the Janata party came on April 27, in the form of a considerably liberalised import policy for the current financial year. According to the press note issued on the occasion, the broad parameters of this year's import policy are:

(i) Legitimate requirements of industry for imported raw materials should be met in full.

(ii) Liberalisation of import policy, however, has to be balanced against the considerations of protecting legitimate interests of indigenous industry. It has, therefore, to be ensured that interests of indigenous industry are adequately safeguarded.

(iii) The liberalised measures, in their totality, should lead to an increase in industrial production, help in maintenance of price line, particularly with respect to items of mass consumption, and strengthen the production base for a vigorous export effort.

(iv) The policy and the procedures to implement it should be simplified and accent should be on prompt and efficient service by Import Trade Control organisation and other branches of administration to trade and industry.

Free Licensing

Import policy, both for actual users and for registered exporters, has been considerably liberalised with respect to the items that can be imported. A number of items of machinery and raw materials, which are not indigenously available, have been placed on open general licence and free licensing. In addition, a number of items,

import of which is canalised, will be available to actual users from the canalising agencies under direct allotment scheme.

The residuary requirements of industrial raw material will be available to actual users under the automatic licensing scheme, which has been made more realistic by relating it to *actual consumption* during preceding years. In addition, the supplementary licensing facility will be available to them.

Notable Feature

A notable feature of the policy is that for small-scale sector industries, a growth factor of 20 per cent over actual consumption in previous year has been allowed under the automatic licensing system. Further, the time-consuming and cumbersome procedure for capacity assessment has been done away with, and supplementary licensing facility has been made available to small-scale units also. This supplementary licensing will be done on decentralised basis by regional licensing authorities on the recommendation of the Directors of Industries of the states concerned, and the organisation in the regions of the Development Commissioner, Small-Scale Industries.

In making this liberalisation, care has been taken that inter-

ests of indigenous manufacturers are safeguarded. Items of machinery and raw materials which are available from indigenous sources will not be allowed to be imported. This protection under import trade control is in addition to the protection available to indigenous industry under tariff regulations. At the same time, it has to be ensured that indigenous manufacturers meet the requirements of industry, whether of capital goods or of raw materials, with regard to price and quality of their products and delivery schedules, in a satisfactory manner.

As a measure of safeguard of the interests of indigenous producers, government will keep the import policy with respect to individual items under constant review. If at any stage it is found that the policy for a particular item is having injurious effect on the indigenous production of that item, immediate corrective measures will be taken.

Constant Review

Provision has been made that manufacturers who wish the import policy for a particular item to be changed or modified, should furnish detailed information to government in support of their suggestion. Thus, policy for all items, whether they are permitted, restricted, or banned for import, will be kept under constant review, and representations received from manufacturers/actual users for banning/restricting/liberalising the policy with respect to individual items

will be considered as and when they are received.

A radical change has been made in the policy for registered exporters; shopping list pattern has been done away with and registered exporters will be able to import, within the value of the import replenishments earned by them, all items which they need in their manufacturing establishments. This major reorientation in the policy for registered exporters should go a long way in strengthening and diversifying the export production base.

Duty-free Imports

The scheme for duty-free imports of raw materials and components for export production has been revamped. The export house scheme has been thoroughly revised and facilities have been given to merchant exporters who export goods manufactured by cottage industries and small-scale units. Supplies by indigenous manufacturers against REP licences at negotiated prices would be treated as exports, and given all benefits which are available to exporters under the import policy for registered exporters.

The overall approach, of the government is marked by 'trust in trade'. Indicative of this approach, the cover of the import policy book has been changed from the usual red to green, with a red band. It will, thus, no longer be the Red Book. This green colour of the cover of the policy book signifies a liberal approach and the red band is a

warning against misutilisation of imported material or misuse of the liberal import facilities.

Import policy is one of the elements of the industrial development policy and programmes, and it should subserve the latter's over-all and broader objectives. This policy and the manner of its implementation will help in achieving national self-reliance and development of industries with special emphasis on small-scale sector and backward areas. It will promote employment and provide opportunities to young entrepreneurs, unemployed youth and graduates in science and technology for innovative participation in endeavour to develop industries.

Special Emphasis

In this policy, therefore, special emphasis has been placed on provisions relating to facilities for small-scale units and cottage and village industries.

For protecting and promoting the interests of the indigenous industries, government will not rely merely on the negative aspects of the import policy, that is to say, the restrictions and bans on import of certain items, but will also promote purposeful interaction between the import trade control organisation and other agencies of the government, such as, DGTD, DC(SS), state governments, etc., with a view to promoting indigenous manufacturing capability in the country, particularly of various machinery items, spare parts, etc., the import of which is allowed at present.

For this, Commerce ministry will, in cooperation with other departments of government and non-government agencies, arrange for dissemination of information and giving assis-

tance to intending entrepreneurs and exporters.

Also, a certain number of showrooms will be set up in the country where technical data, specifications and other relevant information about imported machinery and spares will be exhibited so that the intending entrepreneurs may be able to study them and take steps for their manufacture in India. It is necessary to add this dimension to the import substitution efforts of the government agencies. Though this would not, strictly speaking, be a part of the import policy, yet, it is the government's intention that implementation of this policy and connected procedures should have a positive and constructive orientation so that it becomes a catalyst for promotional and developmental activities of government's various agencies.

Import policy has also been liberalised with respect to a wide range of items needed by general public, and for supporting government's anti-smuggling measures. Thus, provisions for import of books on scientific, technical and specialised subjects, requirements of research and development units, anti-cancer and life-saving drugs, medicines, requirements of medical practitioners and hospitals, materials required by artists, watch parts, dry fruits, cloves, cinnamon, etc., have been considerably liberalised.

Procedural Simplification

Government is keen that procedures for dealing with applications and issue of licences should be made simple, and time-limits should be prescribed for disposal of different categories of applications. This will make the functioning of the department clearer, more

honest, efficient and result-oriented. Several steps have been taken to achieve this objective.

One measure in this direction that has been taken is to do away with the requirement of quoting IVC number in import applications. This was a contributory cause for delay in disposal of applications. In its place, applicants will be required to give simple declarations about their having filed income-tax returns and paid income-tax dues.

Automatic Licences

The system of grant of automatic licences for raw materials and components has been made simpler so that licences can be granted within a short time. The form of consumption certificate has been simplified and the requirement of reference to sponsoring authorities for endorsing additional raw material items on the licence, provided their import is permissible under the policy, has been done away with. Now, within the overall value of the automatic licence to which a unit is entitled, it will be able to get any raw material items if its import is permissible, even if it was not endorsed on the licence for the previous year. This facility will, however, be subject to the condition that the raw material in question is needed for production in the applicant's manufacturing establishment.

Several licensing functions which were earlier handled at the headquarters, have been decentralised. Small-scale sector units will be able to get supplementary licences from the regional licensing authorities. The power of the regional licensing authorities for grant of capital goods licences, both for large and small-scale units, have also been enhanced.

Similarly, several measures have been taken which would speed up the issue of import licences under the import policy for registered exporters.

The abolition of the shopping list by itself is a major procedural simplification. It will cut down delays not only in the scrutiny of applications and in the requests for endorsement of new items but also in the preparation and typing of licences.

Consequent upon the abolition of the shopping list, it has also been possible to re-group the export products into broader categories. This will lead to quicker disposal of applications.

Import Applications

The simplified procedure for processing of import applications, which has been in force for some years, has been made simpler. It will now be possible for the licensing authorities to issue licences speedily and hand over the same across the counter. Under the new simplified procedure, the exporter will be required to furnish to the licensing authority, at the beginning of the licensing period, all information of a standing nature such as registration number with the export promotion council, the constitution of its firm etc. The idea is that this type of information need not have to be repeated by the exporter in his individual claim applications. On the basis of such information the exporter will be enrolled by the licensing authority and enrolment number will be given to him. Thereafter, the exporter will be allowed to apply for REP benefits on a monthly or quarterly basis. The enrolment number will be quoted at the top of the application. The licensing authority will issue the licence for the value

claimed by the exporter without scrutiny of export documents. After the licence has been given, the documents will be scrutinised. The difference, if any, between the amount of the licence given and the amount actually found due on detailed scrutiny will be adjusted against pending and future claims of the exporter. This scheme will be applicable to those exporters who have been in the export field for at least one year, including the preceding year.

In respect of canalised items, the licensing authority used to issue import licences in the name of canalising agency and letters of authority in favour of individual exporters. This system of issuing letters of authority has been dispensed with. Now there will be a single licence covering both canalised and non-canalised items. This will also help in quicker disposal of applications.

Actual Users and Established Importers

Open General Licence: Import of leather machinery, garment-making machinery and a large number of drugs and medicines, chemical items, electronic items, anti-cancer and life-saving drugs, iron and steel items, technical and scientific books etc have been placed under open general licence.

Free Licensing: A large number of items such as, spare parts of imported machinery, certain machinery items which are not available from indigenous sources, polynosic/viscose fibre, polyester fibre/tow, edible oils, watch parts, dry fruits, cloves, cinnamon, nutmegs etc, have been placed under free licensing whereby applications can be made directly to the licensing authority concerned for grant of licences.

Automatic Licensing and Licensing of Individual Items: During the current year, a uniformly liberal treatment in the matter of import licensing will be accorded to all industries, irrespective of the fact whether they are classed as select or non-select. This has been done having regard to the fact that a number of industries producing articles of mass consumption are in the non-select sector. Also, government's objective is that legitimate requirements of imported raw materials of all industries should be met in full. The system of automatic licensing introduced during 1975-76 is being continued with a more liberal approach inasmuch as automatic licences will be granted on the basis of *actual consumption of imported raw materials* without comparing such consumption with the value of licences issued during the previous year. A unit will have the option to claim automatic licences on the basis of consumption either during the period April 1976—March 1977 or April 1975—March 1976.

This facility of choosing any one of the two years has been given to take care of any cases where a unit might have had no consumption for reasons beyond its control. Automatic licence will be granted on the same modes of financing and for the same items as were covered by the licences issued for the previous licensing period. However, items which are not permissible during 1977-78 and those which will now be available directly from the canalising agency without release orders or items which are available under open general licence or free licensing will be excluded from the automatic licences.

A notable measure of liber-

alisation and procedural simplification which has been introduced in the automatic licensing system is that a unit will also have the option to ask for any new items not covered by the previous set of licences, *provided such items are permissible to actual users during the current period*. Such new items will be endorsed on the licences on a request made by the actual users directly to the licensing authority on furnishing a declaration that the item is required for the manufacture of the end-product for which he is licensed, registered or which he is otherwise entitled to produce. In other words, it is not necessary to ask for new items through the sponsoring authority concerned, as hitherto.

Supplementary Licensing: A unit can also ask for a supplementary licence over and above the value of automatic licences obtained if the requirement of imported raw material is more than what it can obtain on the automatic licence. In the case of DGTD units, such requests will be considered on the recommendation of the DGTD. For small scale units, supplementary licences will be granted on the recommendation of the sponsoring authority concerned, *i.e.* State Director of Industries, etc.

Import of Iron and Steel Items: A major procedural change has been introduced for import of iron and steel items. As in the case of non-steel items, a large number of items has been placed under open general licence or under the direct allotment scheme through the canalising agency concerned, namely, SAIL International Limited. In respect of other items not covered by open general licence or under the direct allotment scheme and which are allowed

100 per cent import, licences will be granted on the basis of consumption of imported iron and steel items. In respect of items which are produced mainly by the integrated steel plants or other indigenous producers, the actual users will register their 12 months requirements with the Steel Authority of India or Iron and Steel Controller, as the case may be. These authorities will allocate raw materials through the indigenous sources as per the delivery programme indicated by the actual users. To the extent the requirements cannot be met from the indigenous sources, these authorities will recommend import licences in respect of non-canalised items or arrange imports through the canalising agency, namely, SAIL International in respect of canalised items.

Phased Schedule

Steel Authority of India or the Iron and Steel Controller will not only advise the actual users about the indigenous source of procurement within a period of 30 days from the date of registration but also ensure actual delivery of the material to the actual users according to the phased programme of delivery indicated by them. If an actual user requires an item which is not covered by Appendix 41 of the ITC Policy Book (Volume I) containing the import policy of iron and steel items, he should approach the department of Steel who will scrutinise such requests and recommend grant of licence, if necessary, to the licensing authority within a period of 30 days from the date of request of the actual user to that department.

Small Scale Units: Units in the small-scale sector will be eligible for the same facilities for

automatic licences and supplementary licences as applicable to DGTD units. However, as a measure of further liberalisation of policy for this sector, an increase of 20 per cent will be made on their entitlement for imported raw materials and components. If the small scale units require raw materials over and above the automatic licensing scheme, these units will have to approach the sponsoring authority i.e., State Director of Industries, etc., who will recommend to the licensing authority concerned for grant of supplementary licences, after taking into account the value of automatic licences obtained by the units. Thus, in the matter of grant of supplementary licences, small-scale units have been brought at par with DGTD units and the cumbersome procedure of assessment of capacity which was causing considerable delay, has been dispensed with. In other words, supplementary licensing facility will replace the capacity assessment procedure and also the supplementary licensing has been decentralised.

Repeat Basis

Small-scale units can also claim licences on repeat basis without reference to consumption if the value of their previous licence is upto Rs 50,000.

The mode of financing for grant of import licences to the small-scale units has also been substantially liberalised. They will now be able to get licences up to Rs 50,000 under free foreign exchange. In respect of value exceeding Rs 50,000, licences will be granted 70 per cent under free foreign exchange and 30 per cent under UK Credit. However, if any unit wants a licence under rupee payment area, it can be granted such a licence for the

value asked for within the overall entitlement. All units exporting 20 per cent or more of their production will be granted licences entirely against free foreign exchange.

New units in the small-scale sector can obtain licences on the basis of 100 per cent of the value of installed machinery. The minimum value limit has been increased from Rs 10,000 to Rs 20,000 and the maximum will be Rs 3 lakhs for all industries. In the case of new/proposed units, licences will be granted to cover 12 months' requirements as against six months' requirements at present.

Special Facilities to SSI Units in Backward Areas: The scheme to provide special facilities to industrial units set up in backward areas and those set up by ex-service personnel, scheduled caste and scheduled tribes, young entrepreneurs, unemployed youth and graduates in science and technology has been further enlarged. They will be eligible for grant of licences at 100 per cent of the value of machinery subject to a minimum of Rs 30,000 and maximum of Rs 4 lakhs. The entire value of the licences will be granted under free foreign exchange instead of 75 per cent under free foreign exchange and 25 per cent under UK credit, as at present.

Import of Spare Parts : Import of permissible spares meant for maintenance of imported machinery or imported parts of indigenous machinery will be allowed under free licensing scheme to all actual users duly registered with the DGTD or the State Director of Industries or other sponsoring authorities concerned. The system of open general licence has been changed to free licensing for import of

spare parts not only for functional facility but also for proper monitoring of licensing and credit utilisation. The term "permissible spare parts" will include all spare parts except those which are specifically shown as non-permissible in the import policy for actual users as given in section II of Volume I of the Import Trade Control Policy for April 1977—March 1978.

Non-permissible Spares

Import of non-permissible spare parts will be allowed on the basis of one per cent of the value of imported machinery, subject to the condition that import of a single item of non-permissible spare should not exceed Rs 50,000. Further, non-permissible spares can also be imported up to 10 per cent of the value of raw material licences including those issued under the registered exporters policy. The clearance of spare parts imports through customs may be obtained on the basis of a declaration to be given by the firm to the customs authorities, confirming that the items imported are spare parts and are required for maintenance of machinery installed in his factory.

The present facility for grant of emergency spares will continue. Large as well as small scale units can obtain licence for emergency spare parts for the value of Rs 40,000 and Rs 20,000 respectively, in a year.

Import of Non-permissible Items: Import of non-permissible items will be allowed at 10 per cent of the value of licences for raw materials and components, subject to certain conditions laid down in the import policy.

Import of Restricted Items: The policy for import of rest-

stricted items has been simplified. All restricted items will be allowed at 20 per cent of the value of licences without any upper monetary limit, except a very few restricted electronic items which will be allowed to the extent indicated against such items.

Import of Individual Items The import of a number of items which was hitherto restricted has been liberalised and a few items for which there was no provision for import earlier will also be permitted to be imported.

Research and Development Facilities: All recognised research and development units will be eligible to import their requirements of raw materials, components, instruments, equipment and canalised items etc., for research and development purposes without a licence up to Rs 5 lakhs per annum as against one lakh of rupees at present. For value in excess of this amount, they should approach the licensing authority for an import licence through the department of Science and Technology.

Medical Requirements of Hospitals: Provisions for import of medical requirements by individuals, medical practitioners, hospitals etc. have been considerably liberalised.

Canalisation of Imports: The scheme for direct allotment of canalised items without release orders introduced during 1976-77 has been enlarged. Almost all canalised items will be allotted directly to the actual users without release orders. The actual users can make a direct application to the canalising agency concerned for their 12 months' requirements. A monitoring committee will keep a watch on the quality of service rendered by the canalising agencies under the direct

allotment scheme. The canalising agencies would respond within 45 days whether they will be in a position to arrange the supply of required material within a period of six months or according to the phased programme of delivery indicated by the actual users, whichever is later. The liability of the canalising agency for supply of the material will arise only if satisfactory financial arrangements are made by the actual users with the canalising agency.

Established Importers : The quota for established importers has been raised in respect of a large number of items. The minimum value of licences for established importers has also been raised from Rs 1,500 to Rs 5,000. A provision has also been made that newcomers in respect of certain items like dental materials, scientific and surgical instruments, parts of watches, etc, will be granted licences on the basis of purchase / sale turnover of Rs 50,000 or more in any of the past three financial years, subject to a minimum of Rs 5,000 and a maximum of Rs 10,000.

Capital Goods: Apart from placing leather machinery and garment making machinery under open general licence, a large number of machinery and machine tools which are not available from indigenous sources have been placed under free licensing. Actual users can apply for grant of licences to the licensing authority concerned, by furnishing a declaration that with import of the machinery they will not exceed their licensed/authorised capacity. Of course, they will have to produce an industrial licence/registration certificate, as the case may be, at the time of making the application.

Powers of licensing by the regional licensing authorities have been enhanced. Now applications for capital goods by large and small-scale units may be made to the regional licensing authorities, provided the value of such licences does not exceed Rs 50,000 from general currency area or one lakh of rupees from UK/rupee area. The regional licensing authorities will grant licences on the recommendation of the sponsoring authority concerned.

Export Obligation: Though the system of compulsory export obligation applicable to certain industries has been dispensed with government reserves the right to require any industry which uses imported machinery or imported inputs to show certain export obligation for a period of time and its failure in doing so, will render it liable to action under the import trade control regulations.

Import of Drawings and Designs: All scheduled industries in the first schedule to the Industries (Development and Regulation) Act, 1951, will be allowed the facility for import of drawings and designs subject to the following conditions:

(i) Import will be allowed only once in a licensing period; and

(ii) The value of such drawings and designs should not exceed Rs 10 lakhs.

Applications for import of drawings and designs by industrial undertakings may be made in the prescribed form to the Secretariat of Industrial Approvals, department of Industrial Development, New Delhi, who will process the applications and issue necessary letter of approval within a period of one month from the date of

receipt of the application. Import of drawings and designs by industrial undertakings will be allowed by the customs authorities on the production of "approval letter" from the Secretariat of Industrial Approvals, without any import licence. The banks who are authorised to deal in foreign exchange will allow remittance on the basis of such an approval letter.

Revision of ITC Classification: With effect from April 1, 1977, revised ITC classification has been introduced. The pattern of entries in section II of the Import Trade Policy Book (Vol I) is, therefore, in accordance with the revised ITC schedule. This revised ITC classification is based on BTN classification. There is also a separate appendix in volume I of the Import Trade Control Policy book in which all the BTN entries have been reproduced for the guidance of the trade and industry. This will facilitate in finding out the classification of different items under the revised ITC schedule.

Income - tax Verification Number: The system of production of income-tax verification number has been dispensed with and in lieu a mere declaration from the applicant that he has filed income-tax returns and paid taxes due, will be accepted.

Monitoring Committee: In view of the major changes introduced in respect of allotment of all canalised items directly to the actual users and to ensure smooth working of the system, there will be a monitoring committee under the chairmanship of Chief Controller of Imports and Exports, New Delhi, in which representatives of various departments

concerned and also the canalising agencies would be associated. A number of items which have been placed under the direct allotment scheme are also available from the indigenous sources. There is need to co-ordinating supplies from indigenous sources with supplies of imported items by the canalising agencies. The objective will be that no sector of industry experiences shortage in the matter of supply of these inputs.

The monitoring committee will keep itself informed of the programme of imports of the items in question by canalising agencies and give them such advice as may be necessary from time to time. The monitoring committee will review and give directions about the manner and distribution of imported raw materials under the scheme and give such advice on related matters as may be necessary for successful working of the scheme.

In order to enable the monitoring committee to perform these functions, there will be a separate cell in the office of the Chief Controller of Imports and Exports, New Delhi to service this committee. All actual users can approach the Chief Controller of Imports and Exports (Monitoring Committee Cell) if they face any problem in regard to the items to be allotted directly by the canalising agency to the actual users.

Registered Exporters

Import policy for registered exporters has been completely re-oriented in order to strengthen export production base and to give an impetus to export effort.

Hitherto, the import policy

used to have lists of raw materials and components allowed for import with respect to different export products. Exporters could import these items, within the value of the import replenishment entitlements earned by them, by exporting those products. This list of import materials was commonly known as "shopping list". In the new policy, there will be no such shopping list. The exporter will be able to import raw materials, components, consumable stores and packing materials required for use in his manufacturing establishment. The import will be allowed subject to "actual user" condition which means that the importer shall be required to use the imported materials only in his factory for export production. He will not be able to sell the imported materials or to use them in any other manner.

Policy Advantages

The advantage of this policy will be that while the exporter will, on the one hand, be able to obtain tradeable inputs at international price, he would, on the other hand, be able to diversify and improve upon the quality of his production for further export effort. This will not only improve the quality of Indian products but will also make Indian products more competitive in international markets.

While giving the facility to the exporters to import their requirements at international price, government has also kept in view the need to safeguard legitimate interest of indigenous industry. This has been done by imposing certain restrictions on imports. These restrictions are the following:

(i) A list of banned items has

been incorporated in the policy. This list is in two parts. Part I of the list contains items which would be allowed for import for a total value not exceeding 10 per cent of the value of the licence and within this limit the import of a single item will not exceed one lakh of rupees in value. Part II of the list contains items which will *not* be allowed to be imported against import replenishment licences.

(ii) Items which are permissible for import to actual users on a restricted basis will also likewise be restricted for import against import replenishment licences to the extent of 20 per cent of the value of the licence with a further restriction that import of a single item shall not exceed two lakhs of rupees in value.

(iii) An export-linked import list of items has been incorporated in the policy. This list contains certain raw materials and components and against each of them certain export products have been specified. The import of the items in this list will be allowed only against exports of specified products and to the extent indicated in the list.

The intention of placing the above restrictions is to give the desired protection to the indigenous industry, keeping in view at the same time the need for meeting the requirements for export production.

Indigenous Industry

In the normal course, if an indigenous material compares well with a foreign material in the matter of price, quality and availability, the exporters will obviously prefer to purchase that material from the domestic market, the reason being that the import licence

which an exporter would get against his exports would be of a limited amount within which the exporter will have to meet his entire import requirements. The limited value of the import replenishment licence will by itself work as a restraint on unnecessary imports.

Supply of Indigenous Materials for Export Production:

The indigenous industry will also get due protection from the scheme of supplies of indigenous materials for export production. Under this scheme, a provision has been made whereby the exporters who are allowed to import raw materials and components from abroad against their exports will instead be permitted to buy the same material from indigenous producers, provided the indigenous producer is willing to sell the goods at a negotiated price and the licence-holder is willing to purchase the same goods from the indigenous producer. In such cases, the indigenous producer will be treated as if he had exported that material and such supplies will be treated as exports for import replenishment, discharge of export obligation, if any, imposed on the indigenous producer, grant of export house certificate and for other benefits available to export-oriented units under the import policy for actual users.

Merchant Exporters Helping Small and Cottage Industry Sector: A facility has also been given to those merchant-exporters who have no factories of their own but who export products made in the small scale and the cottage industry sectors. These merchant-exporters will be allowed to import any raw materials and

component required for the manufacture of the product exported. It will be open to them to use the imported materials for further export production on their own account or to dispose of the same to actual users from whom they procure manufactured goods for export. The facility will remove a genuine difficulty which small merchant-exporters were facing hitherto in the utilisation of the materials imported by them. They had neither their own factories nor they were allowed to sell to other actual users.

Over-all Limits

Similarly, a greater advantage has been given to those manufacturers who manufacture products for export but their exports are routed through others. Such manufacturers, if they are nominated by the exporter to receive the import replenishment against the exports made, will have the same facilities in the import of raw materials and components which a manufacturer would have if he had exported the product himself. There will of course continue to be the over-all value limits upto which such manufacturers could acquire nominations. This is with a view to minimising the possibilities of abuse of the facility of nominations.

Nominations: The scope for the exporters to nominate other manufacturers for obtaining import replenishment licences has also been widened. Previously, nominations could generally be made in favour of manufacturer of a product falling in the same product group to which exported product belonged, as for example, engineering product group, chemicals product group etc. In

the new policy, nominations will be allowed in favour of any manufacturer.

The advantage of this liberalisation will be that the industry as a whole will be able to make use of the export earnings in meeting their legitimate requirements in respect of raw materials and components. Secondly, it will also help the exporter to make a more diversified use of his export entitlements thereby adding to his capability to export more. Thirdly, the new provision for nominations will lead to the much desired simplification of procedure in the sense that the licensing authorities will be able to complete the scrutiny of nomination papers and issue the import licences more speedily than before.

Duty Exemption Scheme for Advance Licences: Last year, a scheme for exemption of customs duty leviable on materials imported against advance licences was introduced. It was found that many exporters were not able to take advantage of the scheme for various reasons. In the light of the experience gained, the scheme has been revised. The new import policy contains the revised scheme. The salient changes that have been made in the scheme are indicated below:

(a) The list of items allowed for import under the scheme has been expanded. This has been done to enable the drugs industry, dyestuff industry and the plastics industry to make greater use of the scheme in importing items duty-free when required for export production. There was a persistent demand from the exporters for expansion of the list of items covered by the scheme. The question

of including some more items will also be considered.

(b) It will not be necessary for the exporter to wait for the import of raw materials and components against the duty exemption advance licence and then start making exports to execute the export order. He will be able to commence manufacture of products by using his in stock raw materials etc. As soon as the exporter gets the duty exemption certificate from the department of Revenue, he would be permitted to start his exports. Exports made from the date of issue of the duty exemption entitlement certificate will be taken into account for the discharge of export obligation. This facility will enable the exporters to keep up their delivery schedule.

(c) Another change that has been made in the policy to enable exporters to keep up their delivery schedule is that applications for advance licences under the duty exemption scheme will be considered even in those cases where the exporter does not have an export order at the time of applying for the licence, provided he is in a position to quantify the items to be imported and the endproducts to be exported.

Export Obligation

(d) There will be a single bond which the exporter will have to execute for the discharge of the export obligation and also for the payment of customs duty in the event of his failure to discharge the export obligation.

(e) In order to speed up the issue of licences under the duty exemption scheme, the certificate of requirements of imports once given by the chartered

engineer and the DGTD in a particular case will be accepted for considering similar applications of the same exporter without such exporter having to produce a fresh certification of the chartered engineer and the DGTD.

Import of Canalised Items Against REP Licences: The facility of direct import of canalised items, against REP licences will continue. Also, as a measure of procedural simplification, the system of issuing licences in the name of canalising agency with letters of authority to the importer has been discontinued. Under the new policy, the REP licence will be valid for direct import of canalised items like other items.

Import of Machinery Against REP Entitlements: The facility to import machinery, equipment, tools and instruments against REP licences will continue. As a measure of procedural simplification and with a view to helping the industry, a provision has been made that imports of jigs, tools, equipment for packing and tagging and testing equipment against REP licences for a value not exceeding Rs 1.0 lakh in the case of large scale units and Rs 50,000 in the case of small scale units will not require any prior recommendation of the sponsoring authority or indigenous clearance of the DGTD.

A provision has also been made that manufacturer-exporters whose export products do not ordinarily qualify for import replenishment, will also be allowed to import jigs, tools, equipment for packing and tagging and testing instruments for a value not exceeding 10 per cent of the fob value of their exports

subject to a maximum Rs 50,000 in a year.

Registration of Export Contracts: The facilities regarding protection of the levels of export assistance available to exporters who register their export contracts with the bank will continue. This facility will be equally applicable to contracts for supplies made in India against IBRD/IDA aided projects. Representations were received that these facilities should also be available to those Indian exporters who are only sub-contractors in IBRD/IDA projects in India and where the main contractor happened to be a foreign party. This suggestion has been accepted and necessary provision has been made in the new policy.

Free Trade Zones: Imports of (i) machinery, (ii) raw materials, (iii) components, (iv) spare parts of machinery, (v) consumables, (vi) tools, jigs, gauges and fixtures, (vii) technical and trade samples for a value upto Rs 10,000 in a year, and (viii) packaging materials, into free trade zones at New Kandla and Santa Cruz have been placed on open general licence. The units in these zones will not, therefore, need any licence to import these goods. This facility will be subject to the condition that the goods imported under open general licence will be used in the licence-holder's factory in the free trade zone for export production.

If a unit located in a free trade zone purchases goods from domestic tariff area instead of importing from abroad, such transactions will be treated as exports from India. The supplier in the domestic tariff area will be eligible for import replenishment.

ment licence and certain other benefits on such supplies.

Export Houses: The scheme pertaining to export houses has been revised so as to make it simpler in actual operation and more conducive to the fulfilment of the objectives underlying the scheme. The minimum export performance for the grant of export house certificate has been increased from Rs 50 lakhs to Rs 100 lakhs in respect of select export products and from Rs 3 crores to Rs 5 crores in the case of other products. The intention is that export house facilities should be given to those exporters who have a substantial export performance.

Exports of Small-scale Sector and Cottage and Village Industries: The interests of the small-scale sector have been duly kept in view and the increase in the minimum limit of export performance as mentioned above will not apply to small scale manufacturers and consortium of small-scale units. In their case, the limit of Rs 25 lakhs in respect of select export products and Rs 2 crores in respect of other products will be continue unchanged.

Boost to Small Units

Further, in order to help the small-scale sector, a provision has also been made that export houses who export products made by small-scale units will be given a greater weightage as compared to their exports of other products. The value of exports made by an export house in respect of SSI products will be taken at double of the actual value for the purpose of counting the exports for the grant of export house certificate, initial and supplementary initial licences to export houses, for the dis-

charge of export obligation imposed on export houses and for determining the ceiling for acquisition of REP licences by export houses. This encouragement to export houses will provide the necessary incentive to promote exports of products manufactured in the small scale sector.

New Consortium

As mentioned above, a consortium of small-scale units is recognised as an export house if the total exports of its member-units is of the order of Rs 25 lakhs in respect of select export products. If it is difficult for the small-scale units to arrange for the setting up of a consortium of this level, such units can form export groups of their own provided the total value of exports of the products of such export groups is not less than Rs 10 lakhs. These export groups will be given only some of the advantages available to export houses. It will also be a condition that the export group will have to undertake to increase the export performance of its member-units by a minimum of Rs 5 lakhs each year so that in a period of three years it can become a full-fledged export house.

If the export group of SSI units having an export turnover of Rs 10 lakhs has exported the products of cottage and village industries, such export group will be given all those facilities which are available to full-fledged export houses. This step has been taken with a view to promoting the interests of cottage and village industries and to assist such industries in the matter of marketing their products.

The quantitative export performance will not be the only

criterion to decide the eligibility of an exporter to become an export house. Other relevant factors will also be kept in view. These other factors include assistance rendered by the export house to small-scale units in the matter of improvement of quality, marketing of goods and financial assistance. It also includes the relationship maintained by the export house with its supporting manufacturers in the matter of exporting their products, allocation of imported raw materials to them and giving them other assistance. Apart from these considerations, the structure of the export house, its development programmes, its entry into new markets and introduction of new goods in the traditional markets will also be taken into consideration while recognising export houses.

Specific Products

In the scheme of export houses as in force upto March 31, 1977, 12 product groups were specified. The main purpose of specifying these product groups was to confine the export houses to the import of items available in the shopping lists in these product groups only. Since the shopping lists have been removed, these product groups will have little significance. Consequently these have also been removed from the scheme of export houses in the new policy.

The removal of these product groups will make the scheme more broad-based. Accordingly the export houses will be able to import against their licences any items of raw materials, components, packing materials and consumable stores subject to the same restrictions as would apply to

other exporters in the matter of importing banned and restricted items and the items appearing in the export-linked-import list.

Export houses will be given foreign exchange for promotional activities. The amount of foreign exchange released to each export house will be equal to 2.5 per cent of the fob value of its total exports in the previous year. The export house will be allowed to spend this foreign exchange for specified activities connected with export promotion such as expenditure on sales-cum-study teams abroad, participation in exhibitions abroad, advertisement of goods in foreign markets and for the import of testing equipment for setting up common servicing centres. Out of this foreign exchange, any amount exceeding one lakh of rupees will be set off against the import entitlements earned by the export house on its own exports.

Extra Facility

Export houses will continue to have the facility to import garment-making machinery, machinery required for leather industry, testing instruments and equipment and equipment for packing and tagging against their REP entitlements.

Export houses will be allowed to acquire REP licences by transfer from other exporters for a value up to 25 per cent of the fob value of exports in the previous year. This will be subject to an export obligation which will be equal to for times the value of acquired licences. In discharge of this export obligation, the export houses will have to export goods covered by the list of select export products.

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